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WHAT TO EXPECT NEXT WEEK

July 8 – July 14

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HIGHLIGHTS

- External trade for Germany is the statistics I will focus on this week (July 8). Since the beginning of the year, real exports are slowing down as a consequence of the trade war. Expectations are negative and this is a source of concern for the German growth momentum. The German government may have, in coming weeks, an opportunity to boost domestic demand to cushion this disruption.
- The Chinese external trade will also be a major indicator (July 12) as a measure of the trade war impact.
- The German industrial production index will also show a slowdown in May (July 8). This would be consistent with expectations on its external trade and with corporate surveys that reflect pessimism.
  The other point to mention here is that the UK industrial production will show a downward trend (July 11). This would be consistent with the Markit index for the manufacturing sector. In May the Markit synthetic index was at 49.4 (from 53.1 in April).
- The US inflation rate for June (July 11) will slow as seen in European inflation rates for June (flash estimates) while the Chinese will remain strong (2.7% in May) as food price (pork price precisely) will continue to push up the price index.
- Financial Stability Report by the Bank of England (July 11 at 1130 CET), Minutes of the last FOMC meeting (June 18-19) on July 10 (2000 CET) and Minutes of the last ECB meeting (June 5-6) on monetary policy (July 11 at 1330 CET)

NEXT WEEK'S MAIN DATA AND EVENTS

- **External trade for Germany (May on July 8) and for China (June on July 12)**
  The negative shock from world trade is the main source of concern. Real Germany's exports are showing a strong slowdown since the beginning of the year. In real terms, the German exports are down almost 3% in April compared to last December. As exports represent almost 50% of the German economic activity it's a strong drag for its short term momentum. This is expected to continue. New export orders in the Markit survey is deeply in negative territory in May and June. In May, the figure was at 43.3 and at 43.5 for June. We can't expect a U-Turn on German exports. As it will weaken the short term dynamics, we can expect economic policy measures to cushion this impact through stronger domestic demand.
  The situation for China is different. Germany negative situation is a by-product of the China/US trade war while China is the main US target of the US. The Chinese exports were contracting from January to April on a YoY comparison but slightly up in May. Imports are slowing down rapidly since the beginning of the year. I do not expect a rapid recovery on the Chinese external trade. The discussion, last week in Osaka between Donald Trump and Xi Jinping doesn't change the big picture. Sanctions on Chinese imports in the US have just been postponed and the statement on Huawei is just a temporary one. In other words, the situation is not changing even if negotiations resume.

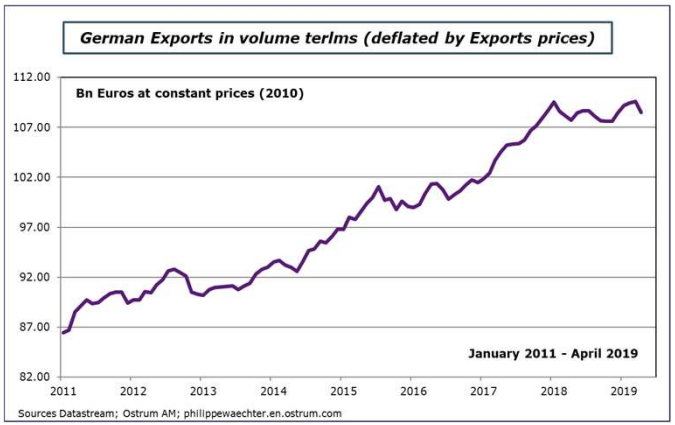
- **CPI in the US for June (July 11) and definitive estimate for France (July 11), Germany (11), and Spain (12) for June**
  Everywhere inflation rates are slowing down. The positive contribution of the oil price is lower than in 2018 as this price is not too far from last year price. The slowdown seen in the Euro Area for June is a good predictor of a lower inflation rate for the US in June.

- **CPI in China for June (June 10)**
  The inflation rate was at 2.7% in May and this acceleration (from 1.5% in February) is mainly due to food prices which jumped form 0.7% in February to 7.7% in May. This comes mainly from the pork price which surged recently due to a disease for pork. This will probably continue in June.

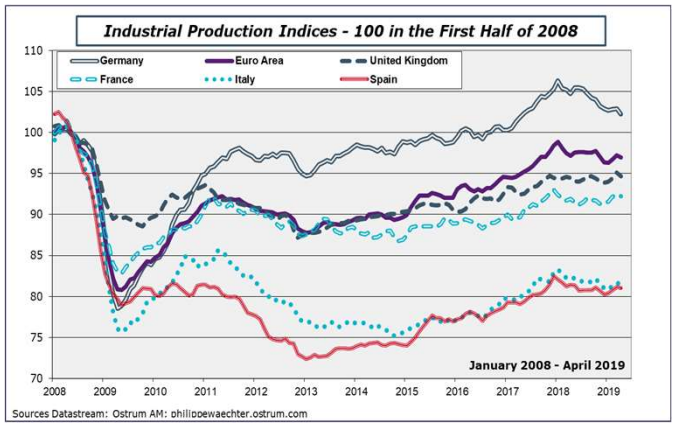
- **Industrial production in the Euro Area (July 12), Germany (8), France, Italy and UK (10)**
  The focus will be on the German index. Since the beginning of the year it shows a rapid slowdown: -2.12% between December and April. This is consistent with what has been seen on the German external trade. It's a source of concern for everyone in Europe. A weaker German economy for a long period would be a drag on every European country growth.
  The industrial production profile for other countries in Europe is almost flat. The impact of the world trade disruption is less important. But nevertheless, it will not be a source of rapid improvement. All the surveys show lower expectations on the manufacturing sector.

- **Jolts (Job Opening and Labor Turnover Survey) for May (July 9) and the NFIB (US small companies Index on July 9), machinery order in Japan for May (July 8) and retail sales in Italy for May (July 9) are also expected.**

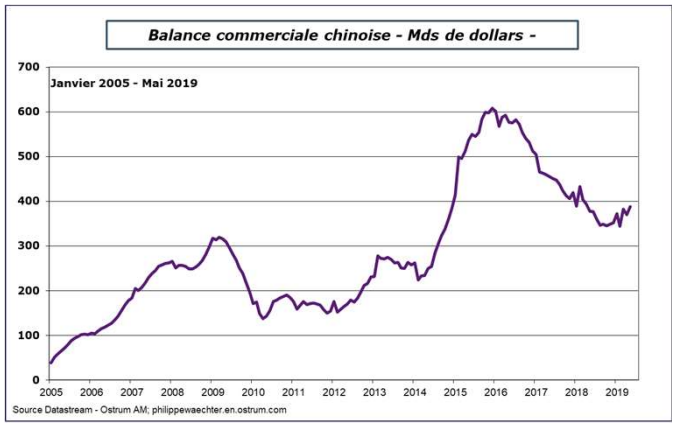
MAIN EXPLANATORY GRAPHS



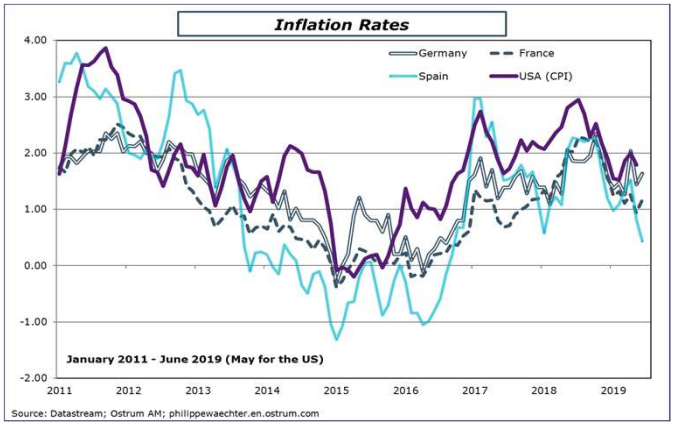
The German export profile, in real terms, has changed since 2018 and the beginning of the trade war. This is a drag for the German growth momentum that can explain the Bundesbank view that Q2 growth figure is probably negative



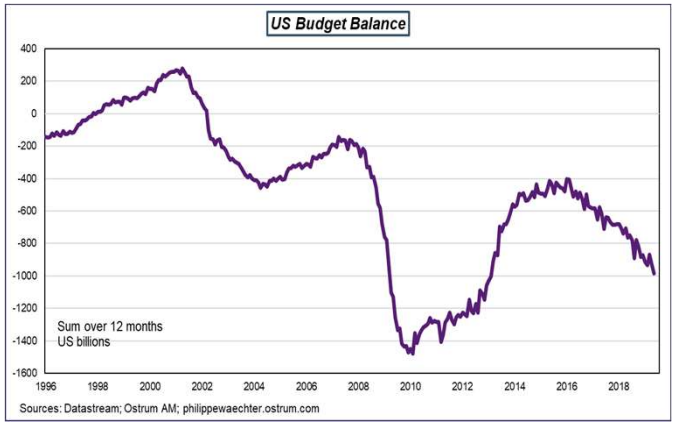
The German index is slowing down rapidly since the beginning of the year. It takes with it the Euro Area index. Weak number expected in the UK. Surveys (Markit) show contraction in May & June in the manufacturing sector



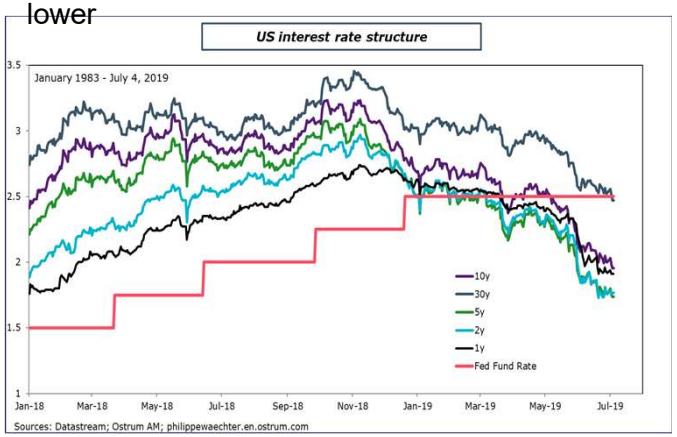
The Chinese trade surplus has shrunk since the end of 2016 reflecting first a surge in imports reflecting a strong domestic demand. Since the beginning of the trade war, disruption is seen on imports and exports' momentum is now much lower



Flash estimates for the inflation rate in June in Germany and France remain low (close to 1% in France). In Spain the index dropped to 0.44% the lowest since the fall of 2016. The US inflation rate for June will follow the European dynamics. We expect a lower inflation rate



The June budget deficit in the US will increase the deficit on a 12 months basis. The economy follows a robust momentum but the deficit is increasing month after month. This is not a positive signal



The US yield curve is totally inverted. The 30y rate is now below the fed funds rate and this reflects a negative perception of the future. Such a signal has always been one of a recession to come even if the Fed cuts its rate later this year (December and not July)

ADDITIONAL NOTES

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