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WHAT TO EXPECT NEXT WEEK

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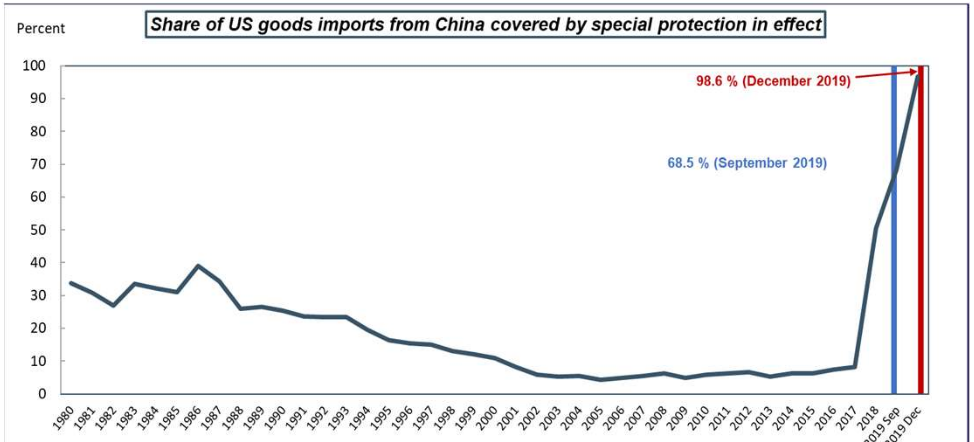
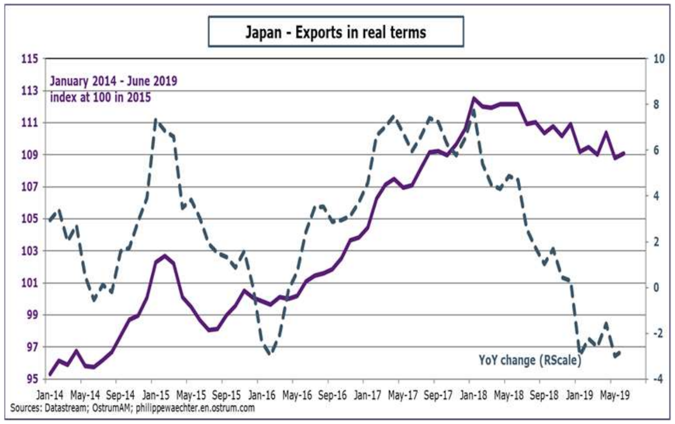
HIGHLIGHTS

- Discussions on trade war between China and the US have been the main trigger for financial markets last week. It will continue as China is ready for retaliation. That's the way we must interpret the recent change in the White House measures. It has postponed new tariffs to December the 15th. It was said to ease Xmas gifts but it was more probably the consequences of the discussions between the two countries. After December the 15th, 96.8% of Chinese exports to the US will have tariffs. That's a terrible change compared to the 5.3% seen in 2013.
  The situation between the two countries and the Chinese announcement of retaliation are sources of concern and the reason for lower interest rates. The risk is to jump into a global recession. With the deep slide seen on interest rate this week (August 12) after the discussion on trade, the main question is to anticipate the level, in negative territory, they will be able to converge nin the Eurozone.
- The impact of this trade war is already seen in exports figures for Japan. In real terms, the exports are already down more than 2% in YoY comparison. The figure for July (August 19) will probably confirm this trend implying new risks for the Japanese growth.
- The Markit indices for August will be released as flash estimates for Japan, Euro Area, Germany, France and the US on August the 22nd. We will look carefully at the manufacturing sector where the world index (will not be released next Thursday) is already in the contraction zone and where all indices for larges developed countries are close or below the 50 threshold.
- In the UK, the CBI survey on new orders may confirm the risk of a deep recession (August 20). The recent drop of this index is already impressive as accumulated inventories for the Brexit limit the possibility of a supplementary demand.
- The last point to look at will be the US housing market. The Existing Home Sales figure will be released on August the 21st. This is an important data as it supports a wealth effect for US households. Recent figures do not show an improvement even with lower mortgage rates. New Homes Sales will be released on August the 23rd.
- August 19 Final CPI release for July in the Euro Area. August 21, the German consumer confidence for August and CPI for Japan on August the 23rd.

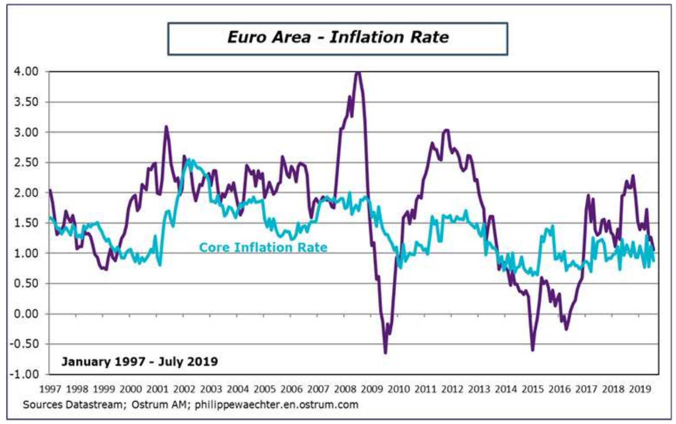


Source: Based on data from Chad P. Bown, 2019, The 2018 US-China Trade Conflict After 40 Years of Special Protection (PIIE Working Paper 19-7)

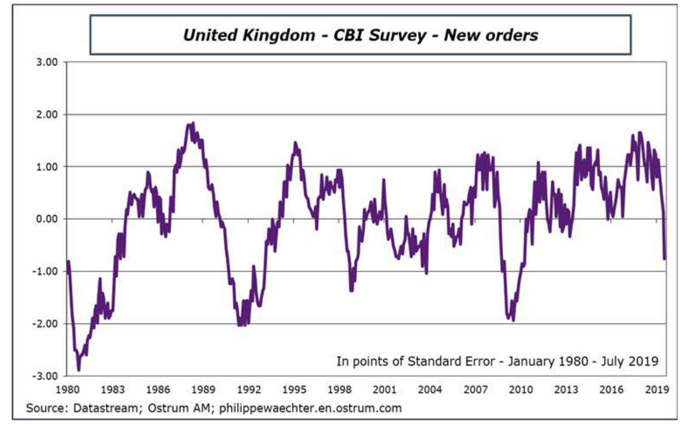
MAIN GRAPHS



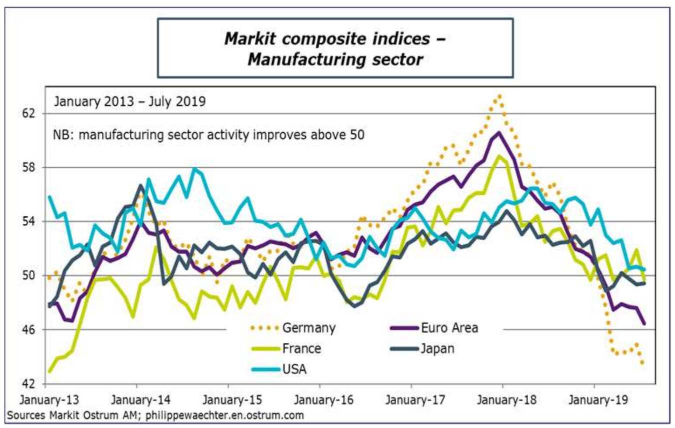
Japan also suffers from the trade war. Its exports are trending down and the YoY change is now negative. Japanese exports have taken advantage of the Chinese take off but the Chinese momentum is now lower and Japan suffers. July figures (August 19) will highlight the Japanese constraint.



Conformation this week (August 19) of the Eurozone inflation rate for July (1.1%). The energy contribution is now close to zero and the inflation rate is converging to the core inflation rate. This latter is stable around 1% since 2017 and I do not expect a rise in coming months as the growth momentum falters.

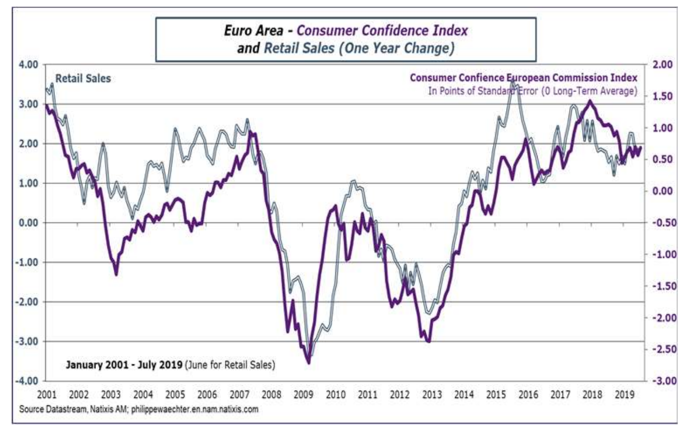


En route for a recession. The CBI index on new orders dropped dramatically in recent months. This was consistent with the negative GDP growth figure for the second quarter. This slowdown will continue and the recession is at the corner. Figures for August (August 20) will confirm that hypothesis.



Markit indices for the manufacturing sector are converging to 50 for the US but are below this level for four other countries for which the flash estimate will be release this week (August 22).
It will be a good indicator for the risk of recession in the US and a confirmation in Germany

There is a limited momentum for the US housing market. The trend is quite stable since the beginning of 2016. This reflects the strong inertia in Existing Home sales (August 21). This latter reflects a kind of wealth effect for households. It is now limited.



Consumer confidence in the Euro Area for August will give a direction on what we can expect on consumers side in coming months. The graph shows a strong consistency between the two indicators. The risk is, in coming months, of a gloomy perception of the future that could depress expenditures. This would increase the risk of a severe slowdown.

ADDITIONAL NOTES

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