

WHAT TO EXPECT NEXT WEEK

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Philippe Waechter
Chief Economist

Twitter: @phil_waechter

Blog: philippewaechter.en.ostrum.com

Soundcloud: phil_waechter

Instagram: economic_dynamics

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



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HIGHLIGHTS

- The ECB meeting (October 24) will be the most important event of the week. During last meeting, the ECB adopted a very accommodative monetary policy stance. This led to important discussions notably on the resumption of the QE and on the forward guidance as these measures will remain until the EA inflation converges to the ECB target. Nothing new is expected? This meeting will be the last for Mario Draghi. He will quit the ECB at the end of this month and be replaced by Christine Lagarde. Draghi has given to the ECB the soul and the instruments that are necessary for an independent and influential central bank.
- Many corporate surveys for October will be released during the week. The French "climat des affaires" (23), the German Ifo (25), the Markit flash estimate (24) and CBR orders in the UK (21)
The current mood in developed countries is pessimistic and this will not reverse rapidly. A Brexit deal may have had a positive impact but the Parliament has not allowed this. BoJo has ask for a new delay until the end of next January. This increases uncertainty as we don't know what will happen in the next three months. Do we converge to a new referendum ? Will Bojo force the Brexit before the end of next January ? Will there be general elections ? No one knows. Many would like to write the future but the recent past has shown that the foreseeable future is not predictable. There are uncertainties also coming from the discussions between China and the US. Discussions, last week was mainly on agriculture as there is a necessity for the US to reverse the trend coming from the trade war. China now buys soybean in Brazil rather than in the US. This weakens Trump future presidential campaign. The risk associated with this negotiations' failure is a source of supplementary weakness. The uncertainty for the future is still high and is a constraint for the economic activity.
- Durable goods orders in the US for September (24).
These numbers have not been strong recently and could reflect a weakness in corporate investment in coming months.
- Existing homes sales in the US for September (22)
This statistic is important as it reflects a kind of wealth effect. Thera are more house owners in the US than people having a large portfolio of risky assets. Movement in the real estate has therefore more impact on consumers' behavior than the stock market can have. The existing home sales is for me the most important statistic that shows this wealth effect. Recent improvement was supportive for consumers' expenditures.

NEXT WEEK'S MAIN DATA AND EVENTS

- **The event of the week will be the end of Mario Draghi's mandate at the head of the ECB**

On October the 24th, Mister Draghi will manage his last monetary policy meeting. He will be replaced by Christine Lagarde on November the 1st.

The ECB has dramatically changed under Draghi's presidency. The Italian economist has only kept the ECB target from the past. The inflation rate must be close but below 2%.

In few bullet points, what has changed during Draghi's mandate ?

- The Euro Area central bank became more dependent on the EA economic equilibrium rather than on the political equilibrium. Before the central bank was perceived as a political construction. Each member was perceived as representing his own country's wishes. Draghi wanted a more global view which was not country dependent.
 - This view has favored the EA recovery. When the ECB slashed interest rates at 0%, the message was to reduce incentives to transfer liquidity from the present to the future. Current account deficit increased dramatically after this move and people spend more. The private domestic demand has started its recovery at this moment.
 - With him, the ECB became a lender of last resort. His famous sentence on "whatever it takes..." pronounced in London on July the 26th of 2012 has integrated the ECB in the European construction. He said then that the European construction was a political one as a framework where people wants to live together. The currency was just a tool for that. His role was to guarantee that problems of this currency (sovereign debt crisis at that moment) would not be a ingredient that would derail this political construction. During the Summer 2012, the OMT was introduced. It gave the possibility to purchase assets at the required level to avoid a crisis. This possibility has stopped the sovereign debt crisis.
 - With the publication of the monetary policy meetings' minutes, Draghi has increase the transparency of the decision making.
 - The very accommodative monetary policy he put in place was late compared to the US but it was needed to compensate the austerity of the policy-mix in 2011/2012 that led to the 6 quarter recession. Austerity policy was a fault we still pay for.
 - As a central banker, Draghi failed. He changed the euro system but failed as the economic momentum is weaker than when he took the job and inflation convergence is just on the agenda not in the real economy. At the same time, the real value of the euro is still robust. The QE on this point has been useless. The main reason for that is the absence of a coordinated fiscal policy which would have completed the ECB action. Draghi has said many times that a pro active fiscal policy was needed but he has convinced every euro area member but governments. That's a pity.
- **From the ECB meeting we do not expect a change in the monetary policy stance. The adjustment was in September. We will be attentive at central bankers' mood. We remember that in September there was no consensus on the measure taken. Will this change in October ? No but nothing is expected at the meeting.**
 - **Many business surveys for October will be released: The French business climate (23), the German IFO (25), Markit flash estimates for Japan, EA, Germany, France and the US (24) and CBI orders in the UK (21)**

After the new IMF forecasts which reflect a gloomy dynamics in developed countries, we will be very attentive to this new flow of surveys. The IMF expects a 1.7% growth for advanced countries in 2019 and 2020 after 2.3% in 2018.

The ZEW which was released last week shows that the German economy doesn't rebound yet.

The main question for us is France. Since the beginning of the year, French surveys are quite strong, above their historical average. Will this continue or can we fear a spillover from the rest of the world? The good surprise would be a U-Turn in all these surveys but...
 - **Durable goods in the US for September (24)** Important as it is always a robust gauge for corporate investment
 - **Other statistics this week** : The Japanese trade balance for September (21), the existing home sales in the US for September (22), the Korean GDP for the third quarter (24), Consumer confidence in Germany for October (25) and Consumer confidence survey of the University of Michigan (25)

ADDITIONAL NOTES

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