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WHAT TO EXPECT NEXT WEEK

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HIGHLIGHTS

- The ECB meeting will be the most important event of the week. Bazooka measures are expected with lower deposit rate (associated with a tiering depending on the size of the bank) and the resumption of the Quantitative Easing Program.
- The lower deposit rate with tiering will help the banking system. The EONIA may even be higher than what is currently seen.
  The QE program will pushdown all interest rates and reinforce financial repression
  We do not expect strong impact on the Eurozone growth momentum or on its inflation.
- External trade in Germany will highlight the impact of the world trade lower momentum. Lower exports have pushed the German GDP change in negative territory during the second quarter. An extended slowdown of the world trade (as expected when we look at the worldwide lower exports orders in the Markit survey) would push Germany in recession.
- Retail sales in the US for August (13) are the last good numbers expected. In September, tariffs on Chinese consumer goods imported in the US will have a negative impact on consumers' behavior.
- JOLTS (10) will show the probable change in the US labor market trend
- The UK economy had a negative change figure in the second quarter. This will have an impact of the labor market (10) for July.

NEXT WEEK'S MAIN DATA AND EVENTS

- **The main event this week is the ECB meeting on September the 12th**
  Bazooka measures are expected from the ECB in order to boost inflation and to change bleak expectations for the world economy and the negative impact seen on Germany.
  The ECB is expected to lower the deposit facility rate. This rate is negative (-0.1%) since June 11, 2014 and at the current level (-0.4%) since March 13, 2016. It could be dropped to -0.5% or -0.6% but with a tiering of the this rate. The point is to limit the constraint on the banking system as this rate is applied to the reserves, banks have at the ECB. This will help banks, notably in large countries. 80% of the liquidity at the central banks are associated with the 5 largest countries.
  The other expected measure is the resumption of the Quantitative Easing program.
  There are four questions associated with these measures:
  1 – They will help banks with the tiering procedure (to be defined as it can be complex)
  2 – The impact on the economy will be very very limited. Consumers and companies have already adjusted their behavior to low interest rates. Therefore, I don't expect a change in their expenditures' momentum. In the recent past, when interest rates dropped to 0% for the refi, consumers' behavior changed dramatically and this change in the monetary policy stance was probably the main reason of the strong recovery seen in the eurozone after 2014. The rationale for low interest rates is to lower incentives to transfer wealth into the future. Accumulation on banking accounts is an incentive to spend. But it will not be the case now.
  More than that, a signal of lower rates can be interpret as a signal that the environment is worse than expected leading to higher saving.
  3 – The QE program is done at a moment characterized with long term interest rates are their historical lowest level. The German ten year rate is already at -0.6% but the Spanish 10y rate is at 0.2% and the Portuguese at 0.23%. Even the Italian 10y is at 0.9%. May be the target for the ECB is to increase the financial repression with negative yield curves for every country of the Euro Area and to signal that it will remain this way for an extended period.
  4 – We know that the missing part of the Euro Area economic policy is a coordinated fiscal policy. Christine Lagarde, after Mario Draghi, mentioned this point in an interview. The ECB cannot kill two birds with one stone. It has to be completed by an integrated fiscal program. That's why we cannot expect a strong impact of the measures that will be taken in Frankfort.

- **The German external trade figure (July) is the other important figure for this week. It will be released on Monday 9**
  Germany has been penalized by the change in the world trade momentum. During the second quarter, exports dropped dramatically (-5.2% at annual rate) and this can be linked with slowdown seen on global trade and on the lower momentum, everywhere, on the manufacturing sector. In July, industrial production was down -0.6% after -1.5% in June. Low expectations remain for July exports.

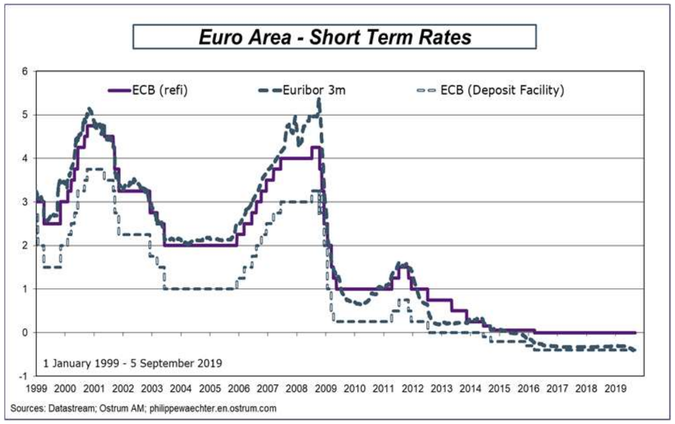
- **US retail sales for August (September 13)**
  Consumers ' expenditures are key for the US economic outlook. Until now numbers have been strong. In the second quarter, change in consumption expenditures(+4.7% at annual rate) was the strongest since the fourth quarter of 2014. This number is important also because it is the last before the hike in tariffs on consumer goods that has been decided by the White House on September 1. Most of the goods with this new tariffs are final goods and this will increase their costs leading to change in consumers' behavior. The second part of the year will be associated with lower dynamics on consumer side. In December 15, new tariffs also on consumer electronics.

- **Jolts figure for July will confirm the change in the US labor market behavior ((September 10)**

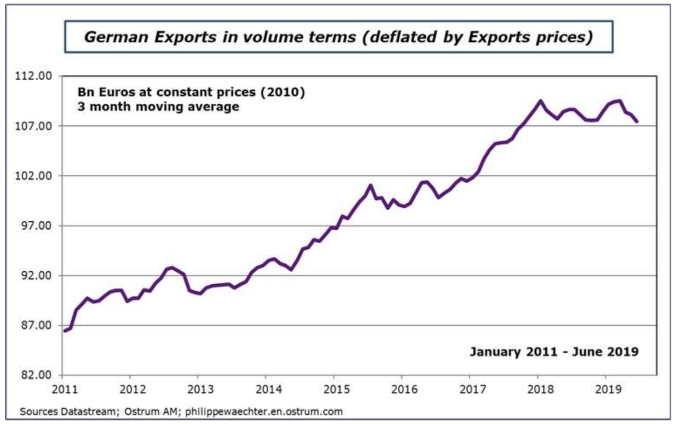
- **The UK labor market (September 10) will highlight the impact of the recent economic drop of the UK economy.**
  This market has been very resilient in the slowdown seen since the referendum. The contraction of the UK activity during the second quarter will have an impact.

- **Industrial production for July in France and Italy (10) in the Euro Area (12), CPI for August in the US (12)CPI for August in China (10) and confirmation of August inflation figures in Germany (12), France (12) and in Spain (13). Labor costs in the Euro Area for the second quarter (13)**

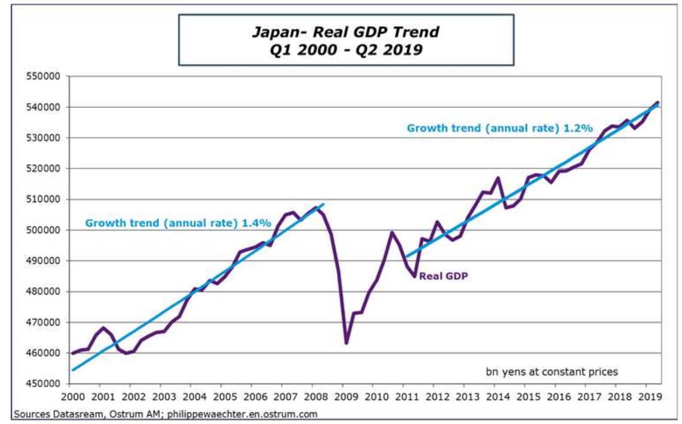
MAIN GRAPHS (5X8)



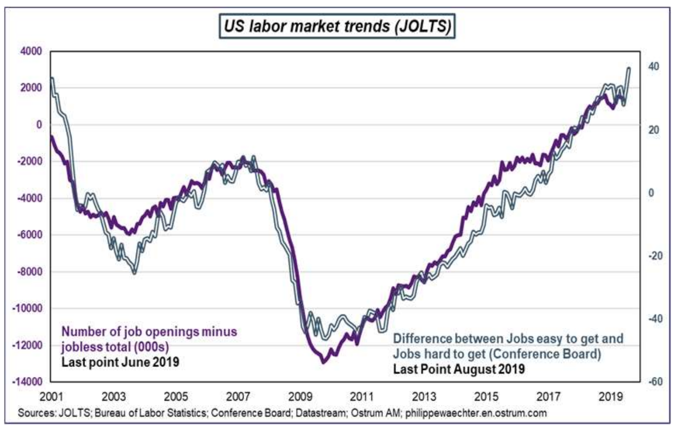
Interest rates in the Euro Area are their lowest. The refi rate is at 0% and the deposit facility rate at -0.4% since March the 16th ,2016. This may change with the ECB meeting (September 12). The deposit could go lower by 10 or 20 bp but a tiering of the rates could take place limiting the costs for banks.



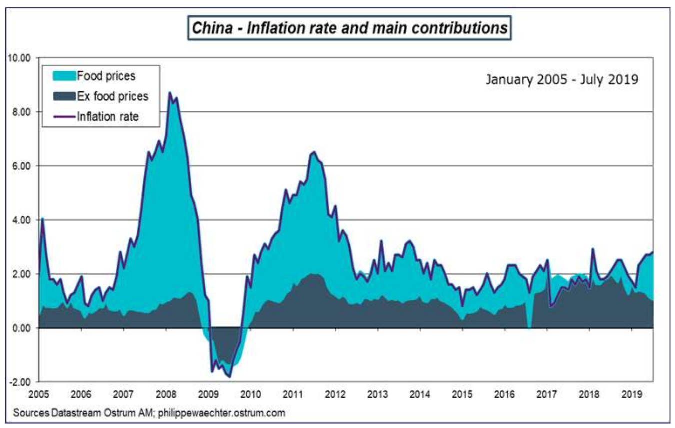
The German exports momentum has dramatically changed since the beginning of 2018. Exports fluctuate around a flat trend. During the last quarter , the dynamics had a strong negative impact on the German GDP. The lack of global impulse from world trade is a weakness in the German model



GDP growth in Japan follows a 1.2% trend at annual rate since the beginning of the recovery in 2011. It was 1.4% before the 2008 crisis. This robust momentum is driven by the domestic demand notably a strong households' consumption and dynamic investment that reflects recently a strong public component.

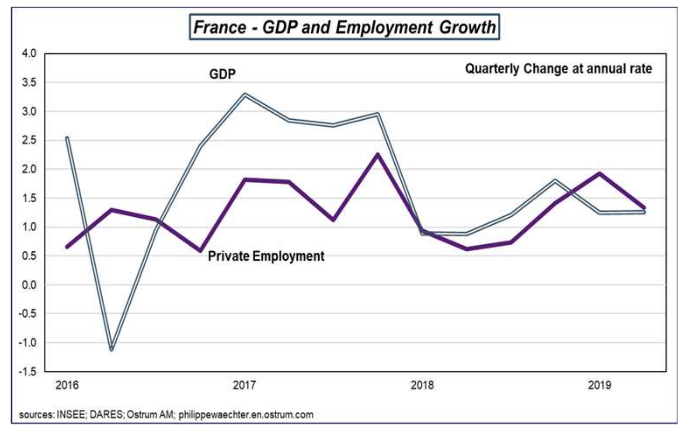


The Jolts survey will be of interest for two reasons. Its dynamics has changed since the beginning of the year. The situation doesn't improve now. This was consistent with the question on the labor market in the Conference board survey. But this later has show a strong improvement in August that has not been seen in the NFP figures released last Friday.



The inflation rate at 2.7% reflects mainly the surge in food prices since the beginning of the year and notably the pork price. Ex food inflation remains low and is receding months after months

August figure released on August the 10th



The employment dynamics is quite strong in France. The flash estimate for the private employment was strong regarding the GDP momentum. That's may be a change to take into account the labor market is now more reactive. (2nd estimate on September the 10th)

ADDITIONAL NOTES

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