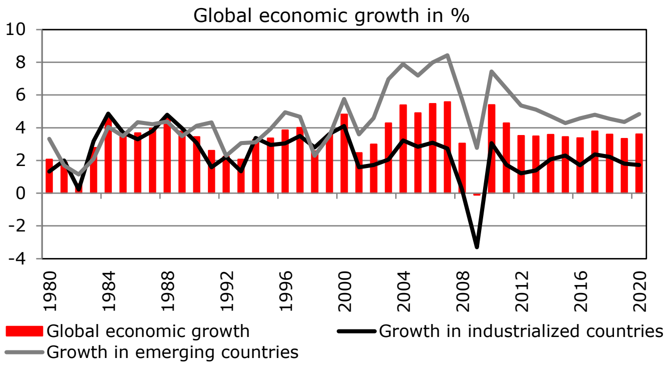
M.M.WARBURG & CO
BANK

ECONOMIC SITUATION AND STRATEGY

April 12, 2019

Spring awakening or false start?

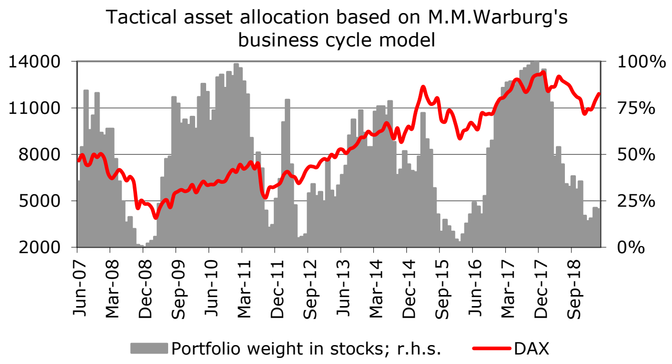
World economic conditions have steadily deteriorated in the past 12 months. Ongoing political uncertainties like the US-China trade dispute and a looming no-deal Brexit are mainly responsible. But crises in emerging markets like Argentina and Turkey and problems in the German auto industry are also contributing. These developments have prompted significant downward revisions of growth forecasts for most countries and regions. The International Monetary Fund (IMF) was still predicting 3.9% global economic growth for 2018 and 2019 in April 2018, but the actual increase achieved last year only came to 3.6%. The IMF has lowered its 2019 forecast this week for the fourth consecutive time, to 3.3%. This would be the slowest growth since 2009, but also not terrible compared with the crisis that began in 2008.

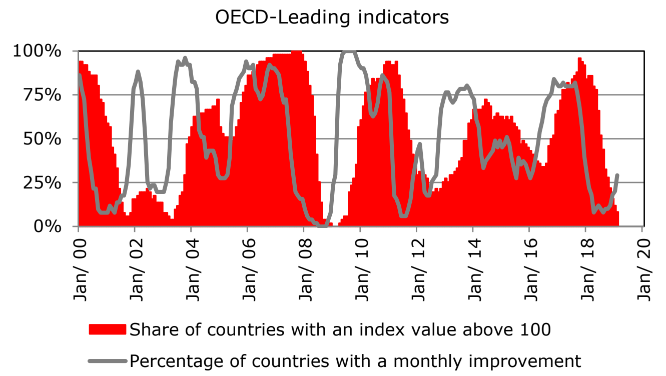


This very significant adjustment is not good, but hardly surprising. We had predicted a similarly disappointing year in 2019 with growth of 3.4% already in December 2018. The IMF statements have consequently had no impact on the capital market, since it already "baked in" the lower growth rate in the fourth quarter of 2018. The outlook going forward is much more critical. The stock market seems to think the worst is over now. The spectacular price recovery since the beginning of the year signals that the market expects only a dip, not a sustained slowdown or even recession.

Some questions remain about this assessment, though. While stock prices have recovered rapidly, economic data have not. However, many market participants expect the economic situation to improve in the months ahead. They connect this, for another thing, to monetary policy now that the Fed has brought upward interest rate movement to a standstill since the beginning of the year and has signaled that there will be no more hikes this year ("don't fight the Fed!"). For another, there is hope that China will continue to fulfill its function as engine of global growth thanks to more accommodative monetary and fiscal policy and an expected trade agreement with the United States.

Despite all the remaining downside risks for the global economy, some leading indicators have recently developed more positively than in the months before. These "green shoots" may also be found in our business cycle models, which evaluate many leading indicators and financial market datapoints daily and thus signal the direction of economic development going forward. The momentum of some data has improved in comparison with the results in January and February. That is due to certain financial market datapoints and better leading indicators from China and other emerging markets.





The global leading indicators that we consider most important are the purchasing manager indexes (PMIs) from the manufacturing and services sectors and the OECD leading indicators. The global PMI rose in March to 52.8 points, the highest level since November 2018. Values above 50 points signal increasing business activity, and values below 50 points decreasing activity. The rise was attributable to better development of the services sector, while the manufacturing sector continued to show weakness. As with other leading indicators, there is also a great discrepancy among purchasing managers between sentiment of service providers, which is still very good, and of industrial companies. The weakening of international trade flows continues to affect manufacturing very negatively. But there are big differences in business development not only between industrial and service enterprises. A very heterogeneous picture is also discernible regionally. The recovery of the PMIs is mainly due to the United States and China. The better data from China might indicate already first effects of measures taken by the government and central bank to boost the economy. However, this interpretation is complicated because the economic data from January through March must be treated with caution because of the Chinese New Year's celebration in February. But since PMIs have improved lately not only in China but also in many other emerging markets, there is some evidence that the recent positive development is not just a flash in the pan. On the other hand, the data in Japan and the euro zone are still significantly weaker than in the rest of the world. This is mainly attributable to the manufacturing sector, which is already in or at least almost in a recession in Germany, France, and Italy. Whether the recovery of the global PMIs is really lasting will only become clear in the next few months. Since the numbers of new orders and orders on hand have continued to decline, the thesis that a bottom is forming is far from certain.

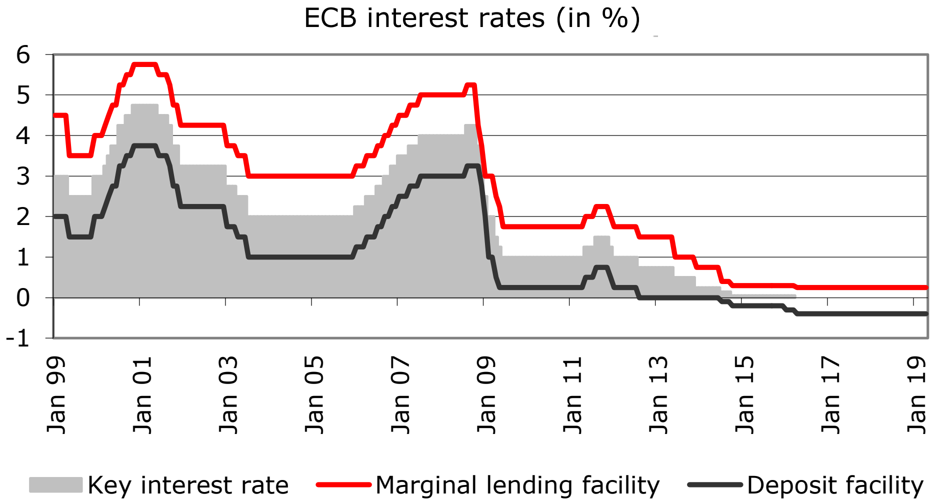
The OECD leading indicators exhibit a similar picture. The weakening trend observed since the beginning of last year has recently lost some momentum. Nevertheless, they continued to go down in February, and now only four countries still show an index level of more than 100 points, which represents long-term trend growth. That is the lowest number of countries since the 2008/2009 financial and economic crisis and shows that the downswing involves many more countries this time than in the weak spells of 2012 and early 2016. However, that the index has recently improved for more than 25% of the countries on a monthly basis remains a positive point. That is an important prerequisite for the indicator having actually reached its lower turning point. Overall, the data thus point to a stabilization and partial improvement of economic conditions. The stock markets have long since priced that in. Now we will have to see how substantial this development is. Only then can the bull market on the stock exchanges continue.

Weekly Outlook for April 15-19, 2019

	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Release
DE: ZEW economic expectations	-24.1	-17.5	-15.0	-13.4	-3.6	4.0	April 16
DE: ZEW current conditions	58.2	45.3	27.6	15.0	11.1	15.0	April 16
DE: Producer prices, m/m	0.1%	-0.4%	0.4%	-0.1%	0.2%		April 18
DE: Producer prices, y/y	3.3%	2.7%	2.6%	2.6	2.7%		April 18
DE: PMI, manufacturing – flash	51.8	51.5	49.7	47.6	44.1	43.8	April 18
DE: PMI, services – flash	53.3	51.8	53.0	55.3	55.4	56.2	April 18
EUR19: ZEW economic expectations	-22.0	-21.0	-20.9	-16.6	-2.5	5.0	April 16
EUR19: Trade balance in EUR bn	18.8	17.0	1.5	8.0			April 17
EUR19: Consumer prices, m/m – final	-0.2%	0.0%	-1.0%	0.3%	0.3%		April 17
EUR19: Consumer prices, y/y – final	1.9%	1.5%	1.4%	1.5%	1.4%		April 17
EUR19: PMI, manufacturing – flash	51.8	51.4	50.5	49.3	47.5	47.0	April 18
EUR19: PMI, services – flash	53.4	51.2	51.2	52.8	53.3	54.0	April 18

MMWB estimates in red

Chart of the Week: No surprises at ECB meeting



As expected, the European Central Bank (ECB) is keeping policy interest rates unchanged. The main refinancing rate, the marginal lending facility, and the deposit facility remain at 0.00%, 0.25%, and -0.40%, respectively. Mario Draghi, whose eight-year term ends in October, will thus probably be the first ECB president never to raise rates while in office. There were also hardly any surprises otherwise. The ECB continues to worry about the economy and sees downside risks, but does not rate the situation as worse than in the preceding month. It already said in March that it would keep interest rates unchanged at least until the end of 2019 because of the weaker economic trend. Summer 2019 had been the time frame before. Another reaction was the announcement of a new series of targeted longer-term refinancing operations (TLTROs) for banks from September 2019 to March 2021. However, more details will not be released until the May meeting. Moreover, the ECB appears open to the demands made by banks complaining about "punitive" (negative) interest rates. It intends to examine whether the side effects of the negative deposit rate can be mitigated. More information will become available at future meetings. One possibility would be to introduce graduated interest rates, following the Japanese and Swiss examples, which would only apply a negative interest rate to deposits of a certain amount upward.

Market Data Overview

	As of	Change versus				
	12/04/2019	05/04/2019	11/03/2019	11/01/2019	11/04/2018	31/12/2018
Stock marktes	11:14	-1 week	-1 month	-3 months	-1 year	YTD
Dow Jones	26143	-1,1%	1,9%	8,9%	8,1%	12,1%
S&P 500	2888	-0,2%	3,8%	11,2%	9,3%	15,2%
Nasdaq	7947	0,1%	5,2%	14,0%	12,4%	19,8%
DAX	11981	-0,2%	3,8%	10,0%	-2,5%	13,5%
MDAX	25420	-0,5%	3,5%	12,1%	-0,7%	17,7%
TecDAX	2756	-0,7%	3,3%	9,5%	7,5%	12,5%
EuroStoxx 50	3445	-0,1%	4,2%	12,2%	0,7%	14,8%
Stoxx 50	3160	-0,4%	3,6%	11,5%	4,5%	14,5%
SMI (Swiss Market Index)	9526	-0,2%	2,0%	7,9%	9,4%	13,0%
Nikkei 225	21871	0,3%	3,5%	7,4%	0,8%	9,3%
Brasilien BOVESPA	94755	-2,4%	-3,3%	1,2%	11,2%	7,8%
Russland RTS	1256	2,5%	6,7%	9,3%	15,9%	17,8%
Indien BSE 30	38776	-0,2%	4,6%	7,7%	14,2%	7,5%
China Shanghai Composite	3189	-1,8%	5,3%	24,9%	-0,6%	27,9%
MSCI Welt (in €)	2148	-0,8%	2,9%	11,9%	12,9%	15,4%
MSCI Emerging Markets (in €)	1087	-0,5%	3,9%	10,8%	1,3%	14,0%
Bond markets						
Bund-Future	165,58	22	105	117	608	204
Bobl-Future	132,85	-3	32	10	173	33
Schatz-Future	111,91	0	6	-1	1	-3
3 Monats Euribor	-0,31	0	0	0	2	0
3M Euribor Future, Dec 2017	-0,32	-1	-4	-10	-36	0
3 Monats $ Libor	2,60	1	0	-18	26	-20
Fed Funds Future, Dec 2017	2,29	3	-9	-13	-17	0
10 year US Treasuries	2,53	3	-11	-17	-26	-16
10 year Bunds	0,02	1	-4	-16	-48	-23
10 year JGB	-0,04	0	-1	-6	-7	-4
10 year Swiss Government	-0,30	7	12	-6	-30	-5
US Treas 10Y Performance	594,26	0,0%	1,2%	2,1%	5,1%	2,3%
Bund 10Y Performance	646,11	0,1%	0,7%	2,4%	6,4%	3,0%
REX Performance Index	492,11	0,2%	0,4%	0,5%	2,4%	0,9%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	0,48	-2	-11	-43	-33	-40
IBOXX BBB, €	1,40	-4	-25	-68	0	-66
ML US High Yield	6,59	-6	-34	-74	17	-142
JPM EMBI+, Index	837	-0,4%	1,0%	3,4%	2,2%	5,8%
Convertible Bonds, Exane 25	7257	0,0%	2,2%	4,3%	-1,0%	5,3%
Commodities						
CRB Spot Index	424,60	-0,1%	2,6%	3,1%	-3,6%	3,8%
MG Base Metal Index	316,24	-0,5%	0,7%	7,2%	-10,8%	7,3%
Crude oil Brent	71,44	2,2%	7,7%	17,6%	-1,7%	34,5%
Gold	1293,06	0,1%	0,0%	0,2%	-4,8%	0,9%
Silver	15,03	-0,5%	-1,8%	-4,0%	-10,6%	-3,1%
Aluminium	1840,25	-1,3%	1,3%	1,5%	-18,5%	-1,2%
Copper	6390,50	0,1%	-0,7%	7,9%	-7,5%	7,4%
Iron ore	93,60	1,9%	10,7%	26,1%	45,6%	35,3%
Freight rates Baltic Dry Index	728	2,4%	12,9%	-37,7%	-25,6%	-42,7%
Currencies						
EUR/ USD	1,1309	0,7%	0,6%	-1,9%	-8,7%	-1,2%
EUR/ GBP	0,8650	0,3%	0,9%	-3,4%	-0,8%	-3,6%
EUR/ JPY	126,54	0,9%	1,3%	1,3%	-4,3%	0,5%
EUR/ CHF	1,1319	0,7%	-0,3%	-0,1%	-4,5%	0,4%
USD/ CNY	6,7061	-0,2%	-0,3%	-0,8%	6,9%	-2,5%
USD/ JPY	111,67	-0,1%	0,4%	2,9%	4,6%	1,9%
USD/ GBP	0,77	-0,5%	0,2%	-1,9%	8,7%	-2,6%

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