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Weekly Macro & Markets View

Highlights and View

- **In a series of votes the UK parliament rejected all the presented options**

  However, the plan to remain in a customs union with the EU came close to winning a majority and could gain further momentum in today's debate on a reduced number of alternatives.

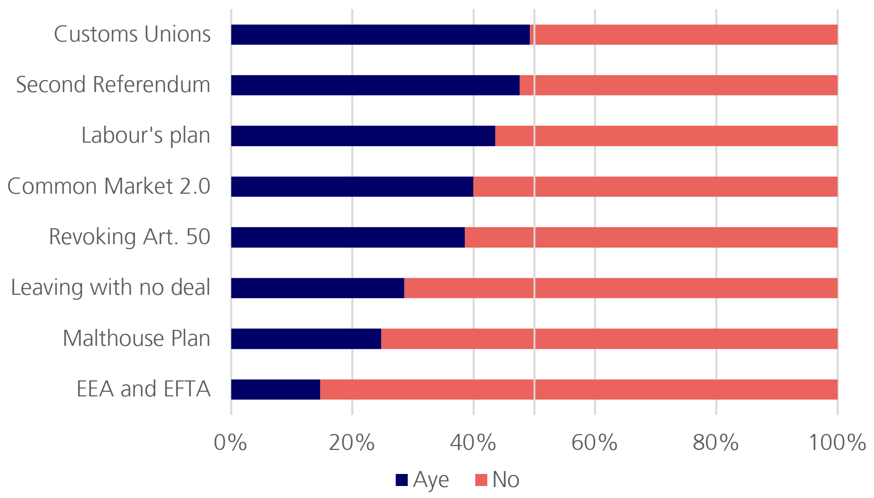
- **Draghi and Praet hint that the ECB is considering a tiered deposit rate for banks' excess reserves**

  While an overdue move in our view, tiering of interest rates would support bank profits at the margin, but would not be a game changer by itself.

- **Major Asian PMIs recovered in March, while Japan's Tankan manufacturing conditions disappoint**

  The recovery in Asian PMIs is encouraging, but confirmation from other indicators is needed. Japanese manufacturing is in the doldrums, while Korea's exports remain weak.

The UK parliament fails to agree on an alternative plan



Source: Bloomberg

In a series of indicative votes the UK parliament failed to reach a majority for any of the options presented with regard to Brexit. Nevertheless, with 49.25% of MP's supporting it, the proposal to keep the UK in a customs union with the EU came closest to winning a majority while the option for a second referendum received the highest number of supporting votes (268 aye vs. 295 no). The option to remain in a customs union with the EU could therefore crystallise as an alternative to either leaving with no deal or accepting Theresa May's withdrawal agreement, which was rejected for a third time last week—though by a significantly smaller margin than last time. On the one hand, remaining in a customs union would help to avoid a hard border between Northern Ireland and the Republic of Ireland, which is one of the EU's key objectives. On the other hand, this option has been rejected by a significant majority within the Conservative Party, making it difficult for a Tory Prime Minister to accept. The parliament will debate on a reduced number of alternatives today. With the prospect of increasing momentum towards a customs union or a second referendum, even May's proposal may have a slim chance among Brexit supporters should it be presented for a fourth vote this week.

US: A solid rebound in the first quarter

The S&P 500 ended a solid quarter on a positive note, gaining 1.2% last week. With a performance of 13.07% in the first three months of 2019 the stock market has almost fully recovered the 13.97% loss suffered in Q4 last year. Meanwhile, economic data continue to be mixed. Both housing starts and building permits fell in February, the latter for the second month in a row. On the other hand, new home sales grew at a solid pace from an upwards revised basis, providing a more positive tilt on the otherwise rather disappointing housing data. GDP growth for Q4 2018 was revised down to 2.2% QoQ from 2.6%, confirming that economic momentum slowed towards the end of last year, after peaking at 4.2% in the second quarter of 2018. The Conference Board's Consumer Confidence survey shows that momentum is unlikely to pick up soon with the headline number falling back below December's level. Indeed, personal spending ticked up by a meagre 0.1% in January. At the same time, PCE Core has slowed to 1.8% YoY from 2.0% in December.

Eurozone: ifo not as bad as PMIs, but manufacturing weakness is still concerning

The German ifo Business Climate Survey was not as bad as the flash PMI survey released the week before, leading to some relief for Eurozone risk assets. The overall Business Climate Index increased to 99.6 in March from 98.7 in February, led by gains in both expectations and current conditions. However, there were some concerning elements within the detail of the ifo survey for the manufacturing sector, as both expectations and current conditions declined further. Separately, the European Commission's Economic Sentiment Indicator declined, to 105.5 in March from 106.2 in February, its ninth consecutive monthly drop. Again, weakness was concentrated in the manufacturing sector. Overall, the latest data are still consistent with trend-like growth in the Eurozone, but with significant vulnerabilities in the manufacturing sector. In a speech last week, ECB President Mario Draghi recognised that risks to growth were tilted to the downside and hinted that the ECB was looking at introducing a tiered interest rate system to support bank profitability.

Japan: Tankan reveals deteriorating business sentiment in the manufacturing sector

Japan's Tankan, the BoJ's quarterly business survey, published today, reveals a mixed picture. The headline diffusion index for large manufacturing companies fell by 7 points to a two-year low of 12, the steepest fall in two years, while the small manufacturing index fell even more, by 8 points to 6. The outlook deteriorated quite significantly as well, particularly for small companies, down 10 points to -2. The outlook for non-manufacturing companies remains more stable for both large and small companies, partly reflecting strong conditions in inbound tourism. Industrial production experienced an unimpressive small rebound in February following a large drop the prior month, but at least some inventory adjustment is now becoming visible. Retail sales disappointed, while auto sales were down nearly 5% in March. On a positive note, housing starts were stronger than expected and labour market conditions remain strong, suggesting that capex for labour saving purposes should remain solid, despite lower investment expectations compared to a year ago as revealed in today's Tankan.

Asia: PMIs in China, Korea and Taiwan suggest that an economic recovery has started

Global equity markets celebrated a recovery in Asian March PMIs today, as increases in the manufacturing PMIs for China, Taiwan, Korea, Indonesia, Thailand and Vietnam seemed to indicate an end to continuously bad readings during the last few months. China's official NBS PMIs rose to a six-month high in both manufacturing and non-manufacturing, 50.2 and 54.8 respectively. The sub-PMIs for production, new orders and new export orders moved up convincingly. The same is valid for the broader Caixin PMI, which moved to an eight-month high of 50.8, finally back above the 'boom-bust' line of 50. It seems that policy easing in the private sector is paying off. We are also encouraged by the recovery in the manufacturing PMIs of Korea and Taiwan, however, both remain below 50. While the recovery in many Asian PMIs is a positive, we must wait for confirmation from other indicators as the March PMIs might still have been subject to some Lunar New Year distortions. In that respect, we think that Korea's disappointing export performance in in March, down by a worse than expected 8.2% YoY, should not be overlooked.

European ABS: Finally, is it time for take-off?

The first Simple, Transparent and Standard (STS) type of ABS deals have debuted, with investors showing large order books and accepting tight spreads. The new STS framework is a cornerstone of the EU's Capital Market Union effort and should help the revival of ABS in Europe. It has been long-awaited and even though final legislation is still pending most details are known so there shouldn't be any surprises, which explains why issuers are going ahead with the deals. Until now, ABS issuance has suffered, with Q1 reporting the lowest quarterly volume over the last five years, in contrast to covered bonds. We believe that the pipeline will now strengthen, helped by the formal authorisation provided by German and UK regulators to two third-party verification agents. Investors will benefit from preferential regulatory capital treatment as well as broader eligibility for ECB and LCR requirements. All in all, we believe this should help the European ABS market, which is dwarfed by the US market, to grow and alleviate a key problem for European credit creation.

What to Watch

- In the US, a series of crucial data including the ISM Manufacturing and Non-Manufacturing indices, retail sales and a range of labour market data will show whether the slowdown in economic momentum has continued.
- In the Eurozone, flash PMIs and industrial production data will be important to watch to gauge the state of the recovery.
- In Japan, we will watch wage and household spending data for February. In Australia, the RBA is expected to keep its policy rate unchanged, but may tilt towards a more dovish tone. PMIs for March as well as building approvals and retail sales for February will be released. In the rest of APAC, several March CPIs will be published.

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