# The Week Ahead

## Active is: Keeping an eye on capital markets

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### "Trick or Treat?"

Halloween is coming up – but whether market participants will be in for a treat remains to be seen.

However, two things are clear:

1. An orderly Brexit on 31 October is hardly possible anymore. While the British parliament did not reject Prime Minister Boris Johnson's withdrawal deal as such, the MPs were unwilling to accept the tight ratification timetable. Nevertheless, a disorderly crash-out Brexit with painful economic consequences is unlikely. It seems that the Brexit deadline will be extended once again, probably by three months, to 31 January 2020. New elections are a possibility. Thus, the first part of the protracted Brexit saga (the actual exit) is still continuing. The second part, i.e. the transition phase, during which the UK and the EU will talk about their future partnership, is delayed once again. In other words: political uncertainties remain (see also our *Chart of the Week*).

2. Halloween will also be the last day of Mario Draghi's eight-year term at the European Central Bank (ECB). As expected, no major monetary decisions were taken at the last council meeting chaired by the outgoing President on Thursday. Instead, more details about September's comprehensive easing package were announced. The package includes a deposit rate cut by 10 basis points, a reinforced forward guidance and the controversial resumption of net asset purchases from 1 November. The commitment to purchase bonds worth EUR 20 bn each month for some time to come sets the direction for Christine Lagarde, Draghi's successor. The next meaningful reassessment will therefore be due on 12 December, the day on which the Council meeting under her new leadership takes place and the updated macro projections are released. The transition to a tiered deposit rate system, which aims to buffer the negative impact on the banking sector, will give Mrs Lagarde some elbowroom to reduce rates again. In other words: monetary policy in the euro area (and beyond) will remain ultra-expansionary and thus supportive for the economy for the foreseeable future.

As the pumpkins vanish after Halloween, market participants are likely to get more clarity about several key uncertainties. By 13 November, Trump will decide for or against higher US

### Publications


**Active is: Managing Tail Risks through Active Integrated ESG investing**

Systematic evidence that actively managing ESG tail risks may help to deliver sustainable investment performance over a market cycle


**Artificial Intelligence – Part of everyday life, driving our future**

Artificial intelligence is all around us. It is part of everyday life, and gaining ground all the time. The investment opportunities are many and varied. The "creative power of destruction" is unstoppable. On the contrary. And it's only just beginning.


**Active is: Using the 7 habits of successful investors**

Investing and accumulating wealth are no trivial matter, especially when investors are torn between avoiding risk and striving for returns. Seven simple habits can help to accumulate capital calmly and composedly. After all, your money should be working for you, not the other way around.

tariffs on auto imports. In Europe, Germany, the UK and Italy would suffer most from a tariff increase. On 14 November, we will learn whether euro-area heavyweight Germany really fell into a "technical" recession in the third quarter. On 16 and 17 November, the APEC summit will be held in Chile. There, US President Donald Trump and Chinese President Xi Jinping may or may not sign the "Phase 1 Deal" and thus pave the way for further, constructive trade talks between the two superpowers. After all, major structural issues underlying the trade conflict are still unresolved.

## The Week Ahead

With these issues in mind, the next week looks set to become quite interesting.

In the US, the reporting season for the third quarter will begin in earnest. As earnings expectations are low, surprises to the upside seem quite possible. In addition, attention will focus on the Federal Reserve's rate decision on Wednesday. The US money market attaches a probability of c. 90% to a third "insurance" rate cut of 25 bp, which would take the Fed funds rate target corridor to 1.50 – 1.75%. In the past, any Fed "insurance rate cuts" in a non-recessionary environment summed up to 75 bp at most. Several consumption indicators are due as well, including consumer confidence (on Tuesday), private consumption during the third quarter (Wednesday) and household income and spending figures (Thursday). US consumers play a key role for the US economy, as household consumption makes up roughly two-thirds of GDP. Initial claims will probably confirm on Thursday that the US job engine is still running smoothly, if at a slower pace. Meanwhile, additional punitive tariffs of 15% on Chinese consumer goods worth c. USD 160 bn may still be levied from mid-December.

In Japan, an interest rate cut on Thursday would not be much of a surprise either; money market participants put the probability of a rate step by the Bank of Japan by year-end at over 90%. Despite full employment, consumer price inflation (Tuesday) is still modest. The outlook for the Japanese economy remains subdued. The protracted trade conflict between the US and China is weighing on the outlook for industrial exports (Thursday). In contrast, September retail sales figures might have benefited from the fact that consumers may have brought their purchases forward to beat the VAT hike on 1 October.

On Thursday and Friday, the PMIs will give us more insight into the growth outlook for China (the world's second-largest economy) in the fourth quarter. So far, the acceleration has been largely due to a recovery of domestic demand, which has been propped up by political measures. Meanwhile, however, purchasing managers might have become more optimistic thanks to the outcome of the recent trade talks between Washington and Beijing.

In the euro area, preliminary GDP data for France (on Wednesday) and Italy (Thursday) are on the agenda. In addition, the economic sentiment survey (Wednesday) and preliminary consumer price inflation figures for October (Thursday) will be released. So far, robust domestic demand has prevented the economy from sliding into recession. The inflation rate should continue to fluctuate around 1% in the face of falling energy prices, to the displeasure of the ECB.

While monetary policy should continue to support growth overall (and not just in the euro area, the US and Japan; the international central banks have cut their key rates more than 40 times in total since the beginning of the year), eventful weeks may bring treats to the markets or play a trick on them. As a rule, if the (political) downside risks recede, risk-on sentiment is likely to increase in the coming weeks. If, however, downside risks intensify, calls for fiscal measures will become louder. Chinese policymakers are already planning to provide additional stimulus. In contrast, the budget figures presented to the EU Commission on 15 October only point to a minor relaxation of the fiscal reins.

May November not show its gloomy side.

Yours,

Ann-Katrin Petersen

## Upcoming Political Events 2019

Oct 27: Argentine general election

Oct 30: FOMC meeting

Oct 31: BoJ meeting and outlook report

Overview political events 2019 (click here)

Overview Central Banks Calender (click here)

## Global Capital Markets & Thematic Research goes MP3, iPod & Blackberry:

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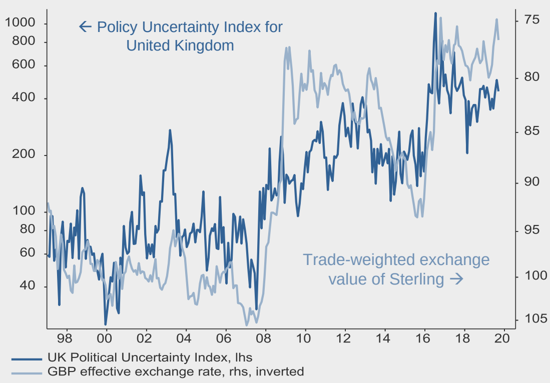
### Chart of the Week

Trick or treat? Pound Sterling's fate depends on the Brexit path the UK will embark on




Past performance is not an indicator of future results.
Sources: Datastream, AllianzGI Global Economics & Strategy.

## Calendar Week 44:

| Monday | | | Consensus | Previous |
|---|---|---|---|---|
| EC | M3 Money Supply YoY | Sep | -- | 5,7% |
| US | Chicago National Activity Index | Sep | -- | 0,1 |
| US | Wholesale Inventories MoM | Sep P | -- | 0,2% |
| US | Dallas Fed Manf. Activity | Oct | -- | 1,5 |
| **Tuesday** | | | | |
| FR | Consumer Confidence | Oct | -- | 104 |
| JN | Tokyo CPI YoY | Oct | -- | 0,4% |
| JN | Tokyo CPI Core YoY | Oct | -- | 0,5% |
| UK | M4 Money Supply YoY | Sep | -- | 3,2% |
| US | Pending Home Sales NSA YoY | Sep | -- | 1,1% |
| US | Conf. Board Consumer Confidence | Oct | 127,9 | 125,1 |
| **Wednesday** | | | | |
| EC | Economic Confidence | Oct | -- | 101,7 |
| EC | Business Climate Indicator | Oct | -- | -0,22 |
| EC | Industrial Confidence | Oct | -- | -8,8 |
| EC | Services Confidence | Oct | -- | 9,5 |
| FR | GDP QoQ | 3Q P | -- | 0,3% |
| GE | Umemployment Rate | Oct | -- | 5,0% |
| GE | CPI YoY | Oct P | -- | 0,9% |
| IT | Consumer Confidence Index | Oct | -- | 112,2 |
| IT | Economic Sentiment | Oct | -- | 98,5 |
| JN | Retail Sales MoM | Sep | -- | 4,8% |
| US | ADP Employment Change | Oct | 116k | 135k |
| US | GDP Annualized QoQ | 3Q A | 1,5% | 2,0% |
| US | FOMC Rate Decision (Upper Bound) | Oct 30 | 2,0% | 2,0% |
| **Thursday** | | | | |
| CH | NBS Manufacturing PMI | Oct | -- | 49,8 |
| CH | NBS Non-manufacturing PMI | Oct | -- | 53,7 |
| EC | Unemployment Rate | Sep | -- | 7,4% |
| EC | GDP SA QoQ | 3Q A | -- | 0,2% |
| EC | CPI Core YoY | Oct P | -- | 1,0% |
| EC | CPI Estimate YoY | Oct | -- | 0,9% |
| FR | CPI YoY | Oct P | -- | 1,1% |
| IT | Unemployment Rate | Sep P | -- | 9,5% |
| IT | GDP WDA QoQ | 3Q P | -- | 0,0% |
| JN | Industrial Production YoY | Sep P | -- | -4,7% |
| JN | Construction Orders YoY | Sep | -- | -25,9% |
| JN | Consumer Confidence Index | Oct | -- | 35,6 |
| JN | BoJ Interest Rate | Oct 31 | -- | -0,1% |
| JN | BoJ 10-Yr Yield Target | Oct 31 | -- | 0,00% |
| UK | GfK Consumer Confidence | Oct | -- | -12 |
| US | Personal Income MoM | Sep | 0,3% | 0,4% |
| US | Personal Spending MoM | Sep | 0,3% | 0,1% |
| US | PCE Deflator YoY | Sep | -- | 1,4% |
| US | Initial Jobless Claims | Oct 26 | -- | -- |
| US | PCE Core Deflator YoY | Sep | 1,7% | 1,8% |
| US | Continuing Claims | Oct 19 | -- | -- |
| US | MNI Chicago PMI | Oct | 49 | 47,1 |
| **Friday** | | | | |
| CH | Caixin Manufacturing PMI | Oct | -- | 51,4 |
| JN | Jobless Rate | Sep | -- | 2,2% |
| UK | Markit Manufacturing PMI | Oct | -- | 48,3 |
| US | Change in Nonfarm Payrolls | Oct | 93k | 136k |
| US | Unemployment Rate | Oct | 3,6% | 3,5% |
| US | Average Hourly Earnings YoY | Oct | 3,0% | 2,9% |
| US | ISM Manufacturing | Oct | 49 | 47,8 |
| US | Construction Spending MoM | Sep | 0,2% | 0,10% |

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