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WEEKLY ECONOMIC INSIGHTS

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Editorial Director: ***Mathilde Lemoine*** *– Group Chief Economist*

HIGHLIGHTS OF THE WEEK

Economist insights: The confidence of US purchasing managers and the employment report remain upbeat, the Italian public deficit should be revised higher, and Swiss GDP growth remained strong in Q2 (p.2)

› In the United States, the employment report was encouraging, and ISM surveys point to a rise in new orders and production. These indicators should underpin the Fed's intention to raise its key rate to 2.25% on 26 September

› In Italy, new budget projections should include a rise in the public deficit in 2019. A downgrade of the rating of Italian public debt could imply a contained increase in sovereign rates

› In Switzerland, quarter-on-quarter GDP growth came out at 0.7% in Q2 2018 and has remained above its long-term average over the past five quarters

Focus: The Chinese central bank has confirmed its intention to support growth (p.6)

› The 50bp reduction, on 24 June, in the reserve requirement ratio applied to banks showed that the Chinese central bank (PBoC) intends to support the economy and limit the slowdown in GDP growth

› According to our analysis, the PBoC not only has the necessary tools and room for manoeuvre to successfully initiate a reacceleration in bank credit to the economy...

› … but also the prudential means that should enable it to prevent this stimulus policy from resulting in a further depreciation of the yuan against the dollar, which it seems to consider undesirable

THE CONFIDENCE OF US PURCHASING MANAGERS AND THE EMPLOYMENT REPORT REMAIN UPBEAT, THE ITALIAN PUBLIC DEFICIT IS SET TO BE REVISED HIGHER, AND SWISS GDP GROWTH REMAINED STRONG IN Q2

IN THE UNITED STATES, THE CONFIDENCE OF PURCHASING MANAGERS AND THE AUGUST EMPLOYMENT REPORT CONTINUED TO GIVE POSITIVE SIGNALS

The US employment report for August indicated a favourable labour market. While the unemployment rate remained stable at 3.9%, 201,000 jobs were nevertheless created in August, up from the 147,000 in July and slightly below the monthly average of 207,000 since the start of the year. The key factor in August was the acceleration in nominal wage growth, which reached 2.9% y-o-y, following stable growth in H1 at 2.7% on average (see Table 1).

We expect wage growth to continue to accelerate at a moderate pace, despite the historically low unemployment rate (at its lowest level since November 2000). Several factors back our forecast of a contained acceleration in wages, notably:

- The participation rate of the 25-54 age bracket is still low and should continue to rise. At 81.8% in August, it is much lower than the levels of 2000 and 2008. If the participation rate were to return to the 84.5% reached in 2000, an additional 3.2 million workers would be joining the current labour force.
- The number of part-time workers for economic reasons is still high. Currently representing 2.7% of the active population, this figure is much higher than the 2.3% observed in 2000.

The gradual return of available resources to the job market should continue to prevent an overly sharp increase in nominal wage growth in 2018.

The moderate wage growth implies that inflation excluding food and energy prices could remain contained. Beyond wage pressure, another factor argues in favour of a limited acceleration in prices: as US GDP growth has above all been generated by corporate investment in machinery and equipment since the start of the year, there has been a rise in production capacity, as we were expecting (see chart 2). This increase in production capacity contributes to limiting upward pressures on prices.

Inflation should remain contained, in a still dynamic economic growth context. The most recent confidence indicators continue to point to a positive economic trend, despite the uncertainties linked to the trade tensions:

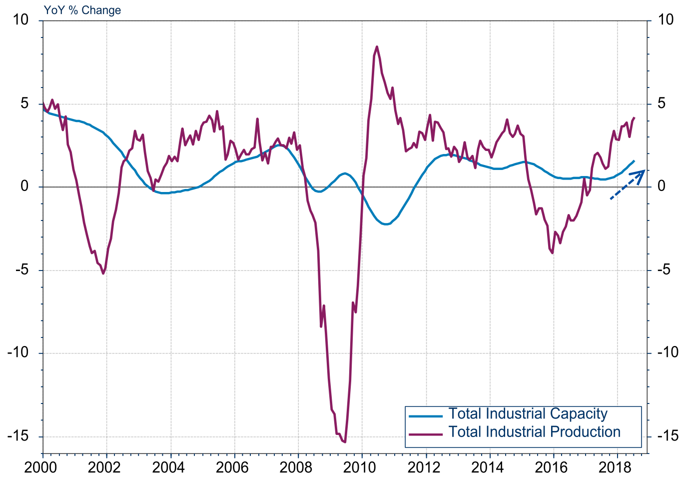
- The manufacturing ISM survey of US purchasing managers rebounded in August to reach 61.3 after 58.1 in July. This represents a peak since May 2004. The non-manufacturing index also rose to 58.5 in August, after 55.7 in July, thus returning to its high average level of 58.4 since the start of the year.

Table 1: The latest data relating to the employment report and the confidence of purchasing managers were positive

	Aug. 2018	July 2018	Avrg. 2018	Avrg. 2017
Manufacturing ISM: Composite	61.3	58.1	59.4	57.4
Manufacturing ISM: Production	63.3	58.5	61.3	61.0
Manufacturing ISM: New Orders	65.1	60.2	63.2	62.2
Nonmanuf. ISM: Composite	58.5	55.7	58.4	57.0
Nonmanuf. ISM: Business Activity	60.7	56.5	60.6	60.1
Nonmanuf. ISM: New Orders	60.4	57.0	61.0	59.3
Unemployment Rate (in %)	3.9	3.9	4.0	4.4
Nonfarm Payrolls (in thousands)	201.0	147.0	206.8	182.3
Nominal Wages (YoY% Change)	2.9	2.7	2.7	2.5
Real Wages (YoY% Change)	/	-0.2	0.2	0.4

Source: ISM, BLS, Edmond de Rothschild Economic Research

Chart 2: The increase in production capacity could continue to limit inflationary pressure in the short term



Source: Thomson Reuters Datastream / Federal Reserve / Edmond de Rothschild Economic Research

- Most sub-components relating to business activity rebounded. For the manufacturing index, new orders, production, employment and delivery times notably gained between 2.0 and 4.9 points over one month. For the non-manufacturing index, new orders and business activity gained 3.4 and 4.2 points respectively (see table 1).

Implications

- The most recent confidence indicators are in line with our scenario according to which US GDP growth should remain robust until the end of the year even though economic growth is unlikely to accelerate as significantly as in S1.
- Limited wage growth and inflation implies that the Federal Reserve is likely to continue to tighten its monetary policy at a gradual pace. We maintain our forecast according to which it would raise its fed funds rate to 2.25% on 26 September and to 2.50% during its December meeting.

IN ITALY, THE PUBLIC DEFICIT SHOULD BE REVISED UP FOR 2019

The forthcoming 2018-2021 budgetary forecasts will be communicated by the Italian government before 27 September. In a context of decelerating economic activity in Italy, the announcement of an upwards revision of the public deficit for 2019 could lead to renewed volatility on the Italian sovereign debt market.

The Economic and Financial Document (DEF) will be presented to the Italian Parliament before 27 September 2018. According to Giovanni Tria, Minister of the Economy and Finances, the budgetary forecasts for 2018-2021 would imply an upward revision of the structural public deficit forecast from 0.8 point of GDP to 1.5 point, i.e. a rise in spending equals to 10 billion euros. This spending would integrate the gradual introduction of a basic universal income of 780 euros for the poorest households ("citizen's income"), a gradual decrease in the tax rates for both households and companies (a flat tax), and an increase in financing for the development of infrastructure. According to Massimo Bitonci, the Under-Secretary for Economy and Finance, the upwards revision of the public deficit would not exceed 5 billion euros, i.e. 0.3 GDP point: the household income tax cut would thus concern the lowest tax bracket, while the rest of the reform would be deferred to 2020 and 2021. Furthermore, the budget programme should offer solutions to offset the 12.5 billion euros income shortfall resulting from the decision not to raise the VAT rate, which was previously planned for January 2019.

This increase in the public deficit would take place in the context of a deceleration in economic activity in Italy over the past 12 months. In Q2 2018, the Y-o-y growth of the Italian economy stood at 1.2%, i.e. quarterly growth of 0.2%. While the build-up of stocks contributes positively to overall activity by 0.7 point, as does investment (0.6 point), private consumption stagnated (0.04 point) while the trade balance still contributes negatively in 2018 (-0.6 point in Q1 and -0.5 point in Q2). In industry, the most recent lead indicators for the month of August (manufacturing PMI) showed a decline in order books and production, and employment growth is at its lowest since 2016. Consequently, industrial activity is currently stagnating in Italy, which limits GDP growth, and hence the room for manoeuvre of the Italian government in terms of budget.

The rating agencies will announce the update of their ratings at end-October. The update of the sovereign rating by S&P (currently BBB with a stable outlook) is expected on 26 October, while Moody's (currently Baa2 with a negative outlook) has extended its review to end-October pending more clarity on the reform timetable and a possible reversal of the 2011 pension and labour market reforms of 2011 and 2015, respectively – a fear that is also shared by S&P. Fitch maintained its BBB rating on 31 August (set on 21 April 2017) but added a negative outlook given the uncertainty regarding an increase in public debt that would make the Italian economy more vulnerable to new shocks. The agency nevertheless mentioned that this revision would not impact the outlook of the ratings of Italian companies.

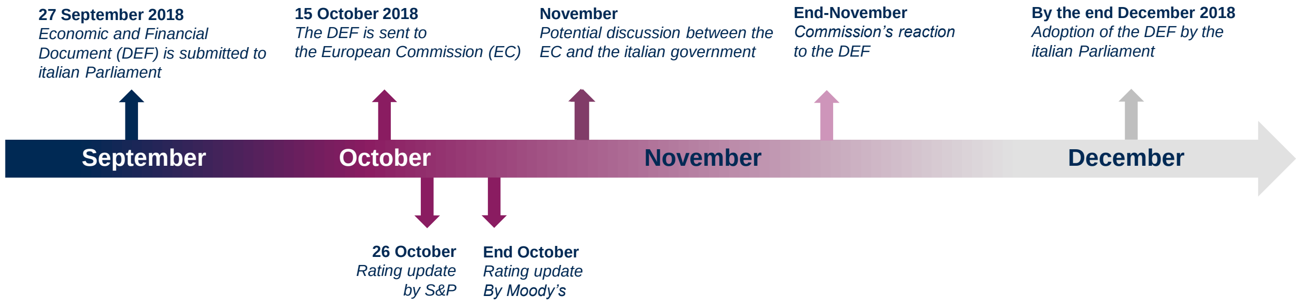
A further rise in Italian sovereign rates would remain contained. Despite high public debt (131.5% of GDP), an unfavourable bond repayment schedule (12 billion to be repaid by the end of the year and 31 billion euros in 2019) and unfavourable sovereign spreads (128 basis points to the German yield for the 2-year maturity, 252bp for the 10-year), three factors could contribute to containing potential stress on Italian sovereign yields:

- the outstanding public debt is 68%-held by Italians (16.3% of which by the Italian central bank) and 27% by eurozone residents;
- long-term bonds are primarily held by investors that hold their securities to maturity – sales before maturity would imply losses;
- The ECB could, once the budget is voted, either deviate from its allocation key for net bond purchases and favour Italian bonds to contain the rise in rates, or reinvest its maturing securities in favour of the Italian market, as there is no strict rule for these investments.

Implications

- Italy's forthcoming budget forecasts will include a rise in the public deficit in 2019 resulting from new public spending to support the Italian economy (infrastructures, tax cuts, universal basic income). Details on the financing of this spending are expected between now and 27 September.
- In the event of downgrades by the rating agencies, an rise in yields would be possible, but could be contained by the holding structure of the stock of debt and the ECB's ability to intervene on the sovereign debt markets.

Timetable for the revisions and validations of the Italian Economic and Financial Document (DEF) for the 2018-2021 budget period:



IN SWITZERLAND, GDP GROWTH REMAINED STRONG IN Q2

According to the estimates of the State Secretariat for Economic Affairs (SECO), Switzerland's real GDP grew by 0.7% q-o-q in Q2 2018 after a 1.0% increase in Q1 (figure revised by +0.4 percentage point). On a year-on-year basis, GDP growth accelerated from 2.9% to 3.4% despite the rise in international trade tensions (see chart 1). This is the highest growth rate recorded in eight years, i.e. over the period Q3 2010-Q2 2018, during which the Swiss economy suffered due to phases of strong appreciation of the Swiss franc.

Chart 1: GDP growth in Switzerland has remained above its long-term average over the five previous quarters

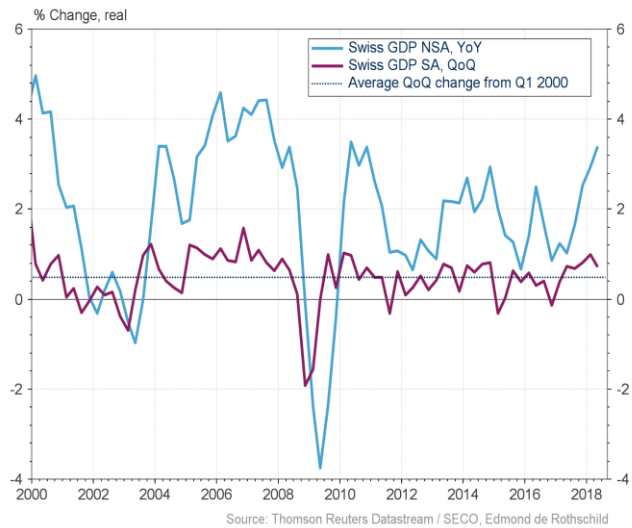
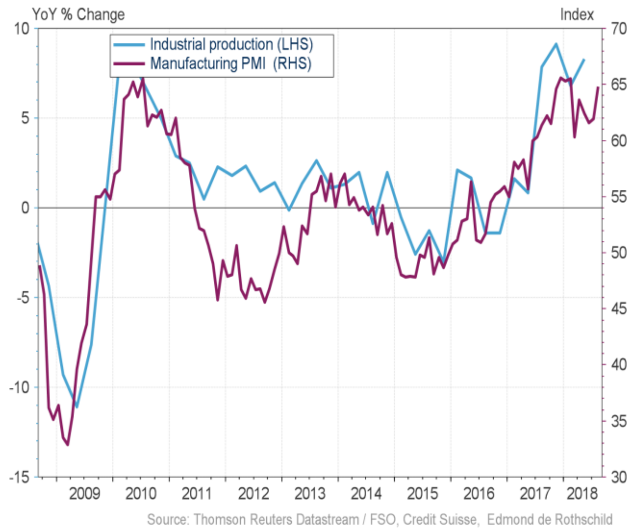


Chart 2: The strong momentum of industrial production contributed to the solid economic environment in Switzerland



The GDP figures recorded over the past year indicate a solid economic environment in Switzerland. GDP growth remains above its long-term average over the past five quarters (i.e. from Q2 2017 to Q2 2018). This trend is similar to the one observed in 2014 before the economic momentum slowed due to the sharp appreciation of the Swiss franc that followed the discontinuation of the exchange rate floor by the Swiss National Bank (SNB).

By sector, the main contributors to real GDP growth in Q2 2018 were the manufacturing industry and the energy sector. These sectors benefited from stronger foreign demand and the weakening of the franc between Q2 2017 and Q2 2018. The nominal effective exchange rate calculated by the SNB indicates an average depreciation of 3.6% over this period. Furthermore, the positive contribution of the manufacturing industry to GDP growth is in line with the strong momentum of industrial production recorded for over more than a year. While the Swiss industry had suffered between 2011 and mid-2017, we note that it has benefited from a clear improvement since (see chart 2). The manufacturing PMI indicates that this trend should continue in Q3 2018.

Regarding the GDP components, the export of goods, particularly industrial and energy products, were the main contributors to the solid economic momentum in Q2. Conversely, the contribution of domestic demand decreased slightly, notably due weak growth in private consumption and investment in capital goods.

Implications:

- According to SECO's estimates, the Swiss economy has grown at a pace above its long-term average over the past five quarters. The Swiss economy as a whole has thus benefited from a robust economic backdrop and has digested the effects of the "Frankenschock" of January 2015.
- However, despite the current more favourable economic environment in Switzerland, the SNB is unlikely to speed up the exit from its accommodative monetary policy, according to our analysis. Firstly, inflation excluding oil products remains moderate. Secondly, in the current context of trade tensions, uncertainty and an appreciation of the franc in Q3 2018, the risks surrounding the future trend of the Swiss economy and prices are pointing more to the downside than a few months ago.

Mathieu Grobéty – Economist, Switzerland, Japan and Structural Analysis, m.grobety@edr.com

Arthur Jurus – Economist, Eurozone, United Kingdom and Housing a.jurus@edr.com

Lisa Turk – Economist, the United States, l.turk@edr.com

THE CHINESE CENTRAL BANK HAS CONFIRMED ITS INTENTION TO SUPPORT GROWTH

Sophie Casanova – Economist, Central Banks, s.casanova@edr.com

THE PBOC HAS CONFIRMED THAT ITS MAIN OBJECTIVE REMAINS RELATIVELY DYNAMIC GDP GROWTH…

The announcement by the Chinese central bank (People's Bank of China, PBoC) on 24 June 2018 of a 50-basis point reduction[1] in the reserve requirement ratio of Chinese banks fully confirmed that the Chinese authorities intend to make credit stimulus a priority over its target to deleverage the financial system[2].

Such a change in the order of priority of its objectives is not new; in 2015 and 2016, while economic growth in China was slowing, the monetary authorities had initiated several cuts in the reserve requirements in order to trigger an acceleration in bank credit. It was not until the end of 2016, when the reacceleration in Chinese GDP growth became clear, that the central bank announced that it would gear its policy toward a clean-up of the financial system.

However, this shift in Chinese monetary policy, albeit in a context of uncertainty linked to the trade tensions, but in which the slowdown in GDP growth remains moderate[3], confirms the analysis by Mathilde Lemoine[4] following the re-election of Xi Jinping and the 19th National Congress of the Communist Party of China in October 2017: while continuing reforms and the clean-up of the financial system are a priority on the agenda of the Chinese authorities, maintaining relatively dynamic GDP growth still remains the main objective, as it is necessary to strengthen China's economic weight in the world.

Even though the PBoC no longer has the means, as was the case a few years ago, to determine the quantity of new credit to be distributed to the economy, the efficiency of its monetary policy is unlikely to be undermined, according to our analysis: the central bank has several tools at its disposal that should enable it to achieve its stimulus target. Moreover, thanks to its prudential measures, it maintains a high level of autonomy with respect to its policy, and should be able to ease monetary conditions without this leading to massive capital outflows or strong downwards pressure on the yuan.

Consequently, we forecast that:

- The monetary easing initiated by the PBoC should to continue and, notably, new announcements of a reduction in reserve requirements could be made in H2 2018.
- These measures should be efficient and could contribute to keeping the slowdown in the Chinese economy moderate i.e. so that GDP growth can settle at a level close to the 6.5% target set by the authorities.
- Despite this more accommodative monetary policy, the downside potential of the yuan against the dollar would be limited thanks to the prudential measures taken by the authorities (reintroduction of the counter-cyclical factor to its yuan-fixing mechanism, the 20% reserve requirement on foreign exchange forward yuan positions and control of capital flows).
- The maintaining of relatively dynamic Chinese GDP growth could contribute to preserving certain economies, particularly those of China's partner Asian countries, in the event of a further rise in concerns vis-à-vis emerging countries.

[1] The reserve requirement ratio for large banks was lowered from 16.00% to 15.50%.
[2] In its monetary policy report published in May, the PBoC had already suggested that it could lighten the weight of the reforms aiming to clean up the financial system (see our Weekly of the Economic Research Team of 22 May 2018).
[3] See our Weekly of the Economic Research Team of 3 September 2018.
[4] See Mathilde Lemoine's Monthly Insights, "Xi Jinping's re-election: political control for an economic leadership", No. 46 – 27 October 2017

Insert: The PBoC has many objectives, but the changes in monetary policy in 2015-2016 and since Q2 2018 confirm that the growth objective takes priority over those relating to financial liberalization

The PBoC's mandate is unusually broad for a central bank. As highlighted in 2016 by Zhou Xiaochuan[5], the PBoC governor at the time, the objectives that have been assigned to the Chinese central bank are high in number and go beyond the limit of the assignments of other central banks. Thus:

- Like many of the central banks of developed countries, the PBoC has three "traditional" monetary policy objectives, which are:
    - to support economic growth,
    - to stimulate employment,
    - and to ensure price stability;
- with an additional objective similar to that of most emerging economies in transition:
    - to preserve the balance-of-payments equilibrium;
- and, lastly, the PBoC has two objectives linked to financial liberalization:
    - to reform and clean up the financial system,
    - to continue to open up the financial markets.

The 19th National Congress of the Communist Party of China, in October 2017, during which the long-term objectives for the Chinese economy were defined, not only reaffirmed these roles assigned to the PBoC, but also extended its role in the regulation and monitoring of the risks of the entire financial system, confirming that its scope reaches beyond solely steering monetary policy.

… AND, DESPITE A CHANGING FRAMEWORK FOR THE IMPLEMENTATION OF ITS MONETARY POLICY …

The framework for the implementation of China's monetary policy has undergone major changes over the past years, while China has been undertaking a gradual process of financial liberalisation that accelerated over the 2010s.

Firstly, the greater flexibility in fixing the rate of the yuan, the gradual opening up to capital flows, and the development of the Chinese financial markets have considerably modified the mechanism for transmitting monetary policy, as the authorities' monetary policy decisions no longer solely concern China's domestic economic variables, but interact with the international financial environment.

Moreover, the liberalization of interest rates, which led the PBoC to discontinue a floor rate for loans granted by banks in July 2013, and then remove, in October 2015, the ceiling on rates applied to bank deposits, obliged it to adopt new tools to implement its monetary policy.

Thus, while the monetary policy had up until now been based on a quantitative approach, through which the PBoC could directly determine the credit growth it deemed desirable for the economy (by setting a growth target for the monetary aggregate M2[6] and by regulating the granting of loans through quotas and reserve requirements) and its cost (via the regulated deposit and lending rates), it now uses a market rate mechanism.

With this mechanism, the target rate for the PBoC's monetary policy is the seven-day interbank rate. The PBoC ensures that it is at a level that it deems appropriate by setting up a rate corridor with a ceiling that is the rate it applies to its exceptional liquidity-providing operations (the standing loan facility) and a floor that is the rate of remuneration of the surplus reserves of banks to the PBoC. Moreover, within this corridor, the PBoC is able to steer the interbank rate by carrying out regular transactions to provide or reduce liquidity (open market transactions).

This market rate mechanism is very similar to the ones used by the central banks of developed countries. However, as long as the Chinese financial system remains incomplete, the transmission of the monetary policy solely through this interest rates channel cannot be as efficient as it is in the major economies.

[5] « *Multi-Objective Monetary Policy: From the Perspective of Transitioning Chinese Economy* », Lecture by Zhou Xiaochuan, Governor, People's Bank of China, 2016 Michel Camdessus Central Banking Lecture, IMF June 24, 2016.
[6] The Chinese authorities did not set a target objective for the monetary aggregate M2 in 2018

Chart 1: The PBoC discontinued its quantitative credit management and adopted a market rate mechanism...

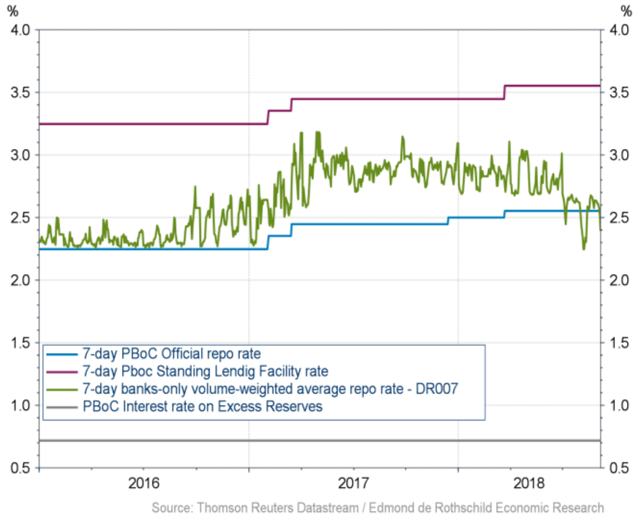
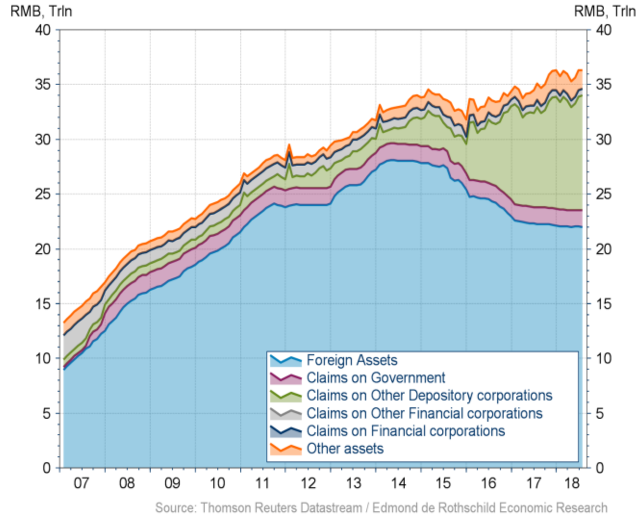


Chart 2: … that it steers notably via operations to provide liquidity to the banking system



… IT MAINTAINS ROOM FOR MANOEUVRE THAT SHOULD ENABLE IT TO ACHIEVE THIS GOAL

The greater financial opening of the Chinese economy and possible weak efficiency of the monetary policy transmission channel of market interest rates nevertheless do not reduce the PBoC's room for manoeuvre, according to our analysis, as the central bank has developed new instruments enabling it to maintain control over its monetary policy and its efficiency:

- Firstly, while the PBoC, via the liberalization of rates, has given banks more flexibility in determining the level of interest on the loans they produce, it has continued to publish benchmark rates (the 1-year deposit and lending rates, see chart 3). Moreover, as confirmed by the monetary authorities, they have maintained their ability to require banks to apply rates close to these benchmarks when they deem it necessary (window guidance). Thus, despite the adoption of a monetary policy mechanism based on market rates, the PBoC maintains the ability to determine, in a discretionary manner, the cost of bank loans.

- Furthermore, the PBoC has the means and instruments enabling it to lead banks to issue the credit quantity its deems necessary for the economy:
  - The high outstandings of required reserves, which could reach 20 trillion yuan according to our estimates, gives the PBoC the ability to free up a large quantity of liquidity and make it available to all banks so that they are able to issue new credit. The reduction in the reserve requirement ratio is thus a faster and more efficient way of injecting liquidity than transactions on the money market, which depend on the demand for liquidity of the limited number of banks authorised to participate in refinancing operations.
  - Moreover, thanks to the introduction of the MPA (Macro-Prudential Assessment) at end-2015, the PBoC has the ability to incite banks to issue credit and potentially steer them toward certain sectors of the economy. The MPA is a complete set of tools for macroprudential supervision enabling the central bank to have a clear vision of the balance sheet and off-balance sheet activities of banks. The banks are attributed a rating based on several measures of financial solidity and compliance with the guidelines of the monetary authorities. This rating is notably taken into account in a bonus-malus system applied to the remuneration of their required reserves as well as the rates of the PBoC's lending facilities.

- Lastly, the PBoC can implement monetary stimulus without risking a sharp depreciation in the yuan. The implementation of regulatory measures and maintaining of certain capital controls that were put in place in 2016 and 2017 enable it to maintain the autonomy of its policy despite the greater opening-up of its economy to the outside world. As such, by way of example, the reintroduction of the counter-cyclical factor to the yuan fixing mechanism and the 20% reserve requirement on foreign exchange forward yuan positions (see our Weekly of the Economic Research Team of 3 September 2018) should limit the build-up of speculation on the yuan that could have resulted from the slowdown in GDP growth and easing of the monetary policy. These temporary measures enable it to maintain autonomy in implementing its monetary policy without having to reverse the financial liberalisation of the Chinese economy.

Chart 3: Despite the liberalisation of interest rates, the PBoC maintains "guidance" that enables it to keep control over the cost of credit

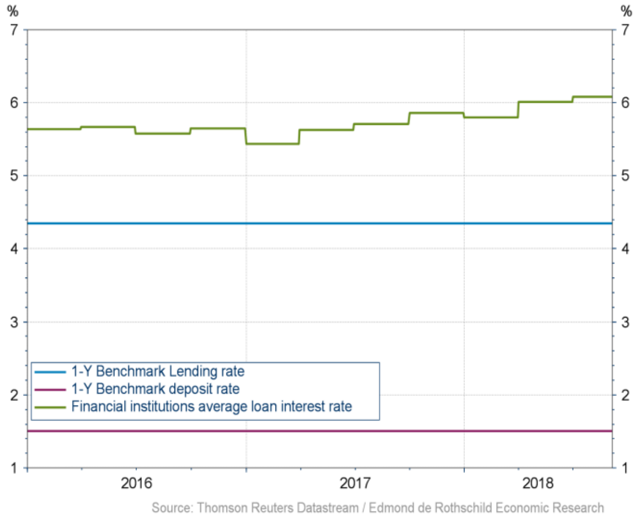
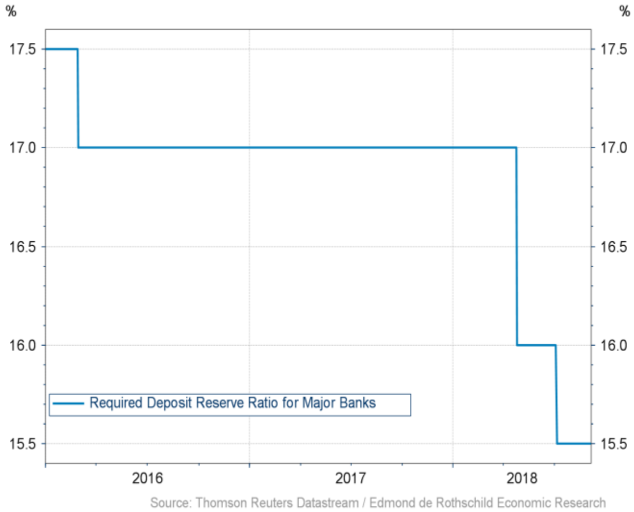


Chart 4: The important stock of required reserves provides the PBoC with substantial room for manoeuvre



IMPLICATIONS

The PBoC's decision to reduce the reserve requirement ratio applied to Chinese banks by 50 basis points confirmed that the Chinese authorities intend to adopt a stimulus policy in order to achieve their growth targets.

According to our analysis, the PBoC not only has the tools and room for manoeuvre that should enable it to achieve its goal of accelerating bank credit to the economy, but it should also be able to prevent, via the prudential measures in place, this monetary easing from leading to a significant depreciation of the yuan.

Thus, we forecast that:

- The monetary easing initiated by the PBoC should continue and, notably, new announcements of a lowering of reserve requirements could be made in H2 2018.
- These measures should be efficient and could contribute to enabling the country to generate GDP growth close to the 6.5% target set by the authorities.
- Additional potential for depreciation of the yuan against the dollar would be limited thanks to the prudential measures put in place by the authorities (the reintroduction of the counter-cyclical factor to the yuan fixing mechanism, the 20% reserve requirement on foreign exchange forward yuan positions and capital controls).
- The maintaining of relatively dynamic GDP growth in China could contribute to preserving certain other economies, particularly those of its partner Asian countries, in the event that concerns surrounding emerging countries were to deepen.

APPENDIX 1 – LATEST CHANGES ON FINANCIAL MARKETS

PERFORMANCE IN LOCAL CURRENCY	LAST PRICE	WEEKLY CHANGE	MONTHLY CHANGE	YEAR-TO-DATE CHANGE	1-YEAR CHANGE
Equities *(total return)*					
World (MSCI)	513	-1.8%	-1.5%	1.8%	9.6%
United States (S&P 500)	2'872	-1.0%	0.7%	8.9%	18.8%
Eurozone (Euro Stoxx)	371	-2.6%	-4.8%	-1.5%	1.7%
Germany (DAX)	11'971	-3.3%	-5.4%	-7.4%	-2.7%
France (CAC 40)	5'264	-2.9%	-4.9%	1.5%	5.9%
Spain (IBEX 35)	9'230	-2.4%	-6.2%	-6.1%	-5.9%
Italy (FTSE MIB)	20'839	0.9%	-6.4%	-4.1%	-3.0%
Portugal (PSI 20)	5'260	-3.5%	-7.1%	0.7%	7.2%
United Kingdom (FTSE 100)	7'291	-2.0%	-4.9%	-2.2%	2.4%
Switzerland (SMI)	8'915	-1.5%	-3.9%	-2.6%	2.7%
Japan (Nikkei)	22'373	-2.4%	-1.5%	-1.0%	17.2%
Emerging Markets (MSCI)	1'023	-3.1%	-5.1%	-9.8%	-3.7%
Sovereign Bonds, 10Y *(change in basis point)*					
United States	2.94%	8.4	7.1	53.9	89.4
Eurozone	0.41%	7.7	9.3	-1.5	9.9
Germany	0.41%	7.7	9.3	-1.5	9.9
France	0.72%	3.1	5.6	-5.7	10.9
Spain	1.46%	0.9	5.4	-10.1	-7.3
Italy	2.92%	-23.7	-6.6	91.4	96.6
Portugal	1.87%	-2.9	9.9	-4.1	-90.5
United Kingdom	1.48%	7.4	23.6	28.9	48.9
Switzerland	-0.07%	5.1	6.6	10.9	12.0
Japan	0.11%	-0.2	1.5	6.8	11.6
Emerging Markets (local currency)	5.28%	9.2	3.4	47.7	55.1
Corporate Bonds *(change in basis point)*					
United States (IG Corp.)	4.03%	8.4	5.5	78.2	93.7
Eurozone (IG Corp.)	1.07%	6.9	12.2	29.9	31.1
Emerging Markets	6.18%	7.4	28.1	167.9	190.0
High-Yield Bonds *(change in basis point)*					
United States (HY Corp.)	6.33%	5.8	9.9	60.7	76.9
Eurozone (HY Corp.)	3.86%	6.8	23.8	86.8	85.6
Convertible Bonds *(price change)*					
United States (Convert. Barclays)	53	-2.0%	-1.0%	6.8%	8.8%
Eurozone (Convert. Exane)	7'736	-0.9%	-0.7%	0.1%	2.6%
Commodities					
Commodities (TR)	401	-0.6%	-2.2%	-4.6%	-2.5%
Gold	1'200	-0.5%	-1.5%	-10.0%	-12.7%
Crude Oil (Brent)	77	-0.6%	4.4%	14.8%	41.3%
Currencies					
Dollar Index	95.3	0.2%	-1.1%	3.4%	4.3%
EURUSD	1.16	-0.4%	1.4%	-3.6%	-3.1%
GBPUSD	1.29	0.6%	1.4%	-4.2%	-1.7%
USDCHF	1.03	0.4%	-2.2%	-0.1%	1.8%
USDJPY	111.1	0.1%	0.2%	-1.4%	1.6%

Source : Bloomberg

APPENDIX 2 – MAIN ECONOMIC INDICATORS

Main Economic Indicators - Released (3- 7 September) and to be released (10 - 14 September)						
US						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
04/09	**ISM Manufacturing, month**	**Aug.**	**57.6**	**61.3**	**58.1**	**-**
06/09	**ADP Employment Change, month**	**Aug.**	**200k**	**163k**	**219k**	**217k**
06/09	**ISM Non-Manufacturing, month**	**Aug.**	**56.8**	**58.5**	**55.7**	**-**
07/09	**Change in Nonfarm Payrolls, month**	**Aug.**				
07/09	**Change in Private Payrolls, month**	**Aug.**	**194k**	**204k**	**170k**	**153k**
07/09	**Unemployment Rate, month**	**Aug.**	**3.8%**	**3.9%**	**3.9%**	**-**
07/09	**Average Hourly Earnings, YoY**	**Aug.**	**2.7%**	**2.9%**	**2.7%**	**-**
12/09	*PPI, YoY*	*Aug.*	*3.2%*	-	*3.3%*	-
12/09	*Core PPI, Yoy*	*Aug.*	*2.7%*	-	*2.7%*	-
13/09	*CPI, YoY*	*Aug.*	*2.8%*	-	*2.9%*	-
13/09	*Core CPI, YoY*	*Aug.*	*2.4%*	-	*2.4%*	-
14/09	*Retail Sales, MoM*	*Aug.*	*0.4%*	-	*0.5%*	-
14/09	*Manufacturing Production, MoM*	*Aug.*	*0.4%*	-	*0.3%*	-
Euro zone						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Manufacturing PMI, month**	**Aug. F**	**54.6**	**54.6**	**54.6**	**-**
04/09	**PPI, YoY**	**July**	**3.9%**	**4.0%**	**3.6%**	**-**
05/09	**Services PMI, month**	**Aug. F**	**54.4**	**54.4**	**54.4**	**-**
05/09	**Composite PMI, month**	**Aug. F**	**54.4**	**54.5**	**54.4**	**-**
07/09	**GDP, QoQ**	**Q2 F**	**0.4%**	**0.4%**	**0.4%**	**-**
07/09	**GDP, YoY**	**Q2 F**	**2.2%**	**2.1%**	**2.2%**	**-**
13/09	*ECB - Refinancing rate*		*0.0%*	-	*0.0%*	-
13/09	*ECB - Deposit rate*		*-0.4%*	-	*-0.4%*	-
Germany						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Manufacturing PMI, month**	**Aug. F**	**56.1**	**55.9**	**56.1**	**-**
05/09	**Services PMI, month**	**Aug. F**	**55.2**	**55.0**	**55.2**	**-**
05/09	**Composite PMI, month**	**Aug. F**	**55.7**	**55.6**	**55.7**	**-**
06/09	**Factory Orders, MoM**	**July**	**1.8%**	**-0.9%**	**-4.0%**	**-**
11/09	*ZEW Survey Current Situation, month*	*Sept.*	*72.0*	-	*72.6*	-
11/09	*ZEW Survey Expectations, month*	*Sept.*	*-13.0*	-	*-13.7*	-
13/09	*HICP, YoY*	*Aug. F*	*1.9%*	-	*1.9%*	-
France						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Manufacturing PMI, month**	**Aug. F**	**53.7**	**53.5**	**53.7**	**-**
05/09	**Services PMI, month**	**Aug. F**	**55.7**	**55.4**	**55.7**	**-**
05/09	**Composite PMI, month**	**Aug. F**	**55.1**	**54.9**	**55.1**	**-**
07/09	**Manufacturing Production, MoM**	**July**	**0.2%**	**0.5%**	**0.6%**	**0.7%**
13/09	*HICP, YoY*	*Aug. F*	*2.6%*	-	*2.6%*	-
Switzerland						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Manufacturing PMI, month**	**Aug.**	**61.0**	**64.8**	**61.9**	**-**
04/09	**CPI, YoY**	**Aug.**	**1.2%**	**1.2%**	**1.2%**	**-**
06/09	**GDP, QoQ**	**Q2**	**0.5%**	**0.7%**	**0.6%**	**1.0%**
06/09	**GDP, YoY**	**Q2**	**2.4%**	**3.4%**	**2.2%**	**2.9%**
07/09	**Unemployment Rate, month**	**Aug.**	**2.6%**	**2.6%**	**2.6%**	**-**
07/09	**Foreign Reserves, CHF, month**	**Aug.**	**-**	**730.9b**	**749.7b**	**-**
UK						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Manufacturing PMI, month**	**Aug.**	**53.9**	**52.8**	**54.0**	**53.8**
05/09	**Services PMI, month**	**Aug.**	**53.9**	**54.3**	**53.5**	**-**
05/09	**Composite PMI, month**	**Aug.**	**54.0**	**54.2**	**53.6**	**53.5**
07/09	**Halifax House Price Index, MoM**	**Aug.**	**0.1%**	**0.1%**	**1.4%**	**1.2%**
07/09	**Halifax House Price Index, YoY**	**Aug.**	**3.7%**	**3.7%**	**3.3%**	**-**
10/09	*Visible Trade Balance £Mln, month*	*July*	*-£11740*	-	*-£11383*	-
10/09	*Manufacturing Production, MoM*	*July*	*0.2%*	-	*0.4%*	-
11/09	*ILO Unemployment Rate, month*	*July*	*4.0%*	-	*4.0%*	-
13/09	*RICS House Price Balance, month*	*Aug.*	*2.0%*	-	*4.0%*	-
13/09	*Bank of England Bank Rate*		*0.8%*	-	*0.8%*	-
13/09	*BOE Asset Purchase Target*	*Sept.*	*435b*	-	*435b*	-

Main Economic Indicators - Released (3- 7 September) and to be released (10 - 14 September)						
Japan						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
04/09	**Monetary Base, End of previous month**	**Aug.**	**¥501.7t**	**¥502.0t**	**¥503.0t**	**-**
04/09	**Monetary Base, YoY**	**Aug.**	**-**	**6.9%**	**7.0%**	**-**
10/09	*GDP, QoQ*	*Q2 F*	*0.7%*	*-*	*0.5%*	*-*
10/09	*GDP, YoY*	*Q2 F*	*-*	*-*	*1.0%*	*-*
14/09	*Industrial production, MoM*	*July F*	*-*	*-*	*-0.1%*	*-*
China						
Date	Indicator	Period	Consensus	**Actual**	Prior	Revised
03/09	**Caixin China PMI Manufacturing, month**	**Aug.**	**50.7**	**50.6**	**50.8**	**-**
05/09	**Caixin China PMI Composite, month**	**Aug.**	**-**	**52.0**	**52.3**	**-**
05/09	**Caixin China PMI Services, month**	**Aug.**	**52.6**	**51.5**	**52.8**	**-**
07/09	**Foreign Reserves, month**	**Aug.**	**$3115.00b**	**$3109.72b**	**$3117.95b**	**-**
08/09	**Trade Balance USD, month**	**Aug.**	**$31.00b**	**$27.91b**	**$28.05b**	**-**
08/09	**Exports, YoY**	**Aug.**	**10.0%**	**9.8%**	**12.2%**	**-**
08/09	**Imports, YoY**	**Aug.**	**17.7%**	**20.0%**	**27.3%**	**-**
10/09	*PPI, YoY*	*Aug.*	*4.0%*	*-*	*4.6%*	*-*
10/09	*CPI, YoY*	*Aug.*	*2.1%*	*-*	*2.1%*	*-*
10/09	*New Yuan Loans CNY, month*	*Aug.*	*1400.0b*	*-*	*1450.0b*	*-*
14/09	*Retail Sales, YoY*	*Aug.*	*8.8%*	*-*	*8.8%*	*-*
14/09	*Industrial Production, YoY*	*Aug.*	*6.1%*	*-*	*6.0%*	*-*
14/09	*Fixed Assets Ex Rural, YTD YoY*	*Aug.*	*5.6%*	*-*	*5.5%*	*-*

APPENDIX 4 – OUR GROWTH AND INFLATION FORECASTS

GDP GROWTH IN VOLUME (%)	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States	2.9	1.5	2.3	2.9	3.2	2.9	3.0	3.0	2.8	2.7	2.9	2.8	2.5
Eurozone	2.0	1.8	2.5	2.5	2.0	1.5	1.4	1.8	2.3	1.4	1.5	1.6	2.0
France	1.0	1.1	2.0	2.1	1.8	1.5	1.2	1.6	2.0	1.2	1.4	1.5	1.8
Germany	1.5	1.9	2.5	2.3	2.2	1.9	1.7	2.0	2.3	1.7	1.8	1.8	2.0
Spain	3.4	3.3	3.3	2.8	2.4	2.6	2.7	2.6	2.7	2.6	2.4	2.1	2.3
Italy	0.8	1.0	1.6	1.5	1.4	1.3	1.2	1.4	1.4	1.0	1.1	1.1	1.2
Luxembourg	2.9	3.1	2.3	3.2	2.9	2.8	3.3	3.0	3.5	2.9	3.1	2.9	3.0
Portugal	1.8	1.6	2.7	0.9	-0.4	0.7	0.8	2.0	2.3	0.9	-0.4	1.9	1.9
Europe ex-Eurozone													
United Kingdom	2.3	1.9	1.8	1.2	1.3	1.2	1.0	1.2	1.5	1.2	1.0	1.0	1.5
Switzerland	1.2	1.4	1.1	2.2	2.3	2.3	2.2	2.2	2.1	2.0	1.9	1.9	1.7
Israel	2.6	3.9	3.3	4.0	3.7	3.4	3.3	3.6	3.5	3.3	3.6	3.5	3.4
Japan	1.4	1.0	1.7	0.9	1.2	1.1	1.1	1.1	1.3	1.3	1.0	0.9	1.0
Emerging countries	4.0	4.1	4.9	5.4	5.2	5.1	5.0	5.1	-	5.0	4.9	4.9	-
China	6.9	6.7	6.9	6.8	6.7	6.5	6.5	6.6	6.6	6.5	6.4	6.4	6.4
Brazil	-3.5	-3.5	1.0	2.1	2.2	2.3	2.5	2.3	2.5	2.5	2.5	2.5	2.8
India	7.6	7.9	6.3	7.3	7.3	7.4	7.4	7.4	7.3	7.4	7.5	7.5	7.5

CONSUMER PRICE INDEX (%)	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States	0.1	1.3	2.1	2.2	2.7	2.8	2.7	2.6	2.5	2.5	2.2	2.3	2.2
Eurozone	0.0	0.2	1.5	1.3	1.6	1.9	1.8	1.7	1.5	1.7	1.6	1.6	1.5
France	0.0	0.2	1.0	1.6	1.7	1.6	1.5	1.6	1.6	1.4	1.2	1.3	1.5
Germany	0.3	0.5	1.8	1.6	1.8	1.8	1.7	1.7	1.6	1.6	1.4	1.5	1.7
Spain	-0.5	-0.2	2.0	1.2	1.6	1.5	1.4	1.5	1.5	1.4	1.4	1.4	1.6
Italy	0.0	-0.1	1.2	1.4	1.6	1.4	1.4	1.4	1.2	1.3	1.3	1.3	1.3
Luxembourg	0.1	0.0	2.1	1.2	1.3	1.9	1.8	1.5	1.5	1.8	1.8	1.9	2.0
Portugal	0.5	0.6	1.4	0.7	1.4	1.2	1.2	1.2	1.4	1.2	1.1	1.2	1.5
Europe ex-Eurozone													
United Kingdom	0.0	0.7	2.7	2.7	2.5	2.4	2.3	2.5	2.5	2.3	2.3	2.3	2.1
Switzerland	-1.1	-0.4	0.5	0.7	0.9	0.9	1.0	0.9	0.7	1.0	1.1	1.1	0.9
Israel	-0.6	-0.5	0.2	0.2	0.6	0.9	1.0	0.7	0.8	1.0	1.1	1.2	1.2
Japan	0.8	-0.1	0.5	0.7	0.8	0.8	0.9	0.8	1.0	0.9	0.9	1.0	1.1
Emerging countries	4.3	3.8	3.0	3.1	3.4	3.6	3.4	3.4	-	3.3	3.4	3.3	-
China	1.4	2.0	1.6	2.2	2.1	2.3	2.2	2.2	2.3	2.2	2.3	2.3	2.3
Brazil	9.0	8.8	3.5	2.8	3.0	3.5	3.4	3.2	3.3	3.7	4.0	3.8	4.0
India	4.9	5.0	3.3	4.6	4.9	5.2	5.0	4.9	4.7	4.9	4.8	4.8	4.7

APPENDIX 5 – OUR INTEREST RATE AND CURRENCY FORECASTS

INTEREST RATES AND YIELDS (%)*	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
United States													
Policy rate	0.50	0.75	1.50	1.75	2.00	2.25	2.50	2.50	2.40	2.75	3.00	3.25	3.05
2-year yield	0.68	0.83	1.39	2.27	2.45	2.65	2.80	2.54	2.51	3.00	3.20	3.30	3.01
10-year yield	2.13	1.83	2.33	2.74	3.00	3.20	3.30	3.06	2.95	3.35	3.40	3.45	3.36
Eurozone													
Policy rate	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30
2-year Schatz yield	-0.25	-0.59	-0.72	-0.60	-0.50	-0.40	-0.30	-0.45	-0.50	-0.20	-0.15	-0.05	-0.07
10-year Bund yield	0.54	0.14	0.37	0.50	0.70	0.85	1.00	0.76	0.73	1.15	1.25	1.35	1.22
2-year OAT yield	-0.18	-0.51	-0.48	-0.49	-0.40	-0.30	-0.25	-0.36	-0.37	-0.15	-0.10	0.00	0.19
10-year OAT yield	0.86	0.48	0.81	0.72	0.90	1.05	1.20	0.97	1.14	1.30	1.40	1.50	1.82
United Kingdom													
Policy rate	0.50	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.80	0.50	0.50	0.50	1.15
2-year yield	0.54	0.29	0.25	0.82	0.80	0.80	0.75	0.79	0.98	0.70	0.70	0.70	1.41
10-year yield	1.82	1.22	1.20	1.35	1.40	1.45	1.45	1.41	1.60	1.40	1.35	1.35	2.01
Switzerland													
Policy rate	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.70	-0.75	-0.75	-0.50	-0.50
2-year yield	-0.89	-0.91	-0.85	-0.85	-0.75	-0.60	-0.50	-0.68	-0.64	-0.40	-0.25	-0.05	-0.06
10-year yield	-0.09	-0.35	-0.09	0.03	0.10	0.30	0.45	0.22	0.23	0.65	0.80	0.85	0.72
Japan													
Policy rate	0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.00	-0.10	-0.10	-0.10	0.00
2-year yield	0.01	-0.21	-0.17	-0.13	-0.10	-0.10	-0.10	-0.11	-0.13	-0.10	-0.05	0.00	-0.09
10-year yield	0.36	-0.04	0.06	0.05	0.05	0.05	0.10	0.06	0.11	0.15	0.25	0.30	0.16
Emerging countries - Policy rates													
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Brazil	14.25	13.75	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.75	7.25	7.75
India	6.75	6.25	6.00	6.00	6.00	6.25	6.25	6.25	6.15	6.25	6.50	6.50	6.35

* data at end of period for trimestrial values and period average for annual values

EXCHANGE RATE**	2015	2016	2017	Q1 18	Q2 18f	Q3 18f	Q4 18f	2018f	Consensus	Q1 19f	Q2 19f	2019f	Consensus
Dollar													
EUR/USD	1.08	1.11	1.13	1.23	1.20	1.17	1.15	1.19	1.24	1.15	1.16	1.17	1.29
USD/JPY	120	109	112	108	110	113	115	112	108	115	115	115	105
GBP/USD	1.47	1.36	1.29	1.39	1.36	1.33	1.29	1.34	1.40	1.29	1.29	1.29	1.44
USD/CHF	1.00	0.98	0.98	0.95	0.99	1.03	1.04	1.00	0.96	1.06	1.08	1.06	0.95
USD/CNY	6.28	6.65	6.75	6.36	6.38	6.40	6.45	6.40	6.36	6.45	6.45	6.45	6.28
USD/BRL	3.34	3.48	3.19	3.24	3.45	3.50	3.50	3.45	3.40	3.50	3.55	3.50	3.31
Euro													
EUR/JPY	130	120	127	133	132	132	132	132	133	132	133	133	135
EUR/GBP	0.73	0.81	0.88	0.88	0.88	0.88	0.89	0.88	0.88	0.89	0.90	0.91	0.89
EUR/CHF	1.09	1.09	1.11	1.17	1.19	1.20	1.20	1.19	1.18	1.22	1.25	1.24	1.21
EUR/SEK	9.36	9.47	9.64	9.97	10.10	9.90	9.75	9.93	10.10	9.65	9.55	9.45	9.50

**period average

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EDMOND DE ROTHSCHILD (Suisse) S.A.
Rue de Hesse 18 – 1204 Genève - T. +41 58 818 91 91 |
Rue de Morat 11 – 1700 Fribourg - T. +41 26 347 24 24
Avenue Agassiz 2 – 1003 Lausanne - T. +41 21 318 88 88
Via Ginevra 2 – 6900 Lugano - T. +41 91 913 45 00
Beethovenstrasse 9 – 8002 Zürich - T. +41 44 818 81 11

EDMOND DE ROTHSCHILD (Europe)
Luxembourg – Boulevard Emmanuel Servais, 20 – 2535 Luxembourg – T. +352 24 88 1
Belgique – Avenue Louise – Louizalaan 480/ Boite 16A – 1050 Bruxelles – T. +32 2 645 5757
Espagne – Paseo de la Castellana, 55 – 28046 – Madrid – T. +34 91 364 6600
Portugal – Rua D.Pedro V, 130 – 1250-095 Lisboa – T. +351 21 045 4660

EDMOND DE ROTHSCHILD (France)
47 Rue du Faubourg Saint-Honoré – 75008 Paris – T. +33 1 40 17 25 25
116 rue de Jemmapes – 59800 Lille – T. +33 3 62 53 75 00
27 rue Auguste Comte – 69006 Lyon – T+33 4 72 82 35 25
Hôtel de Saige 23 cours du Chapeau Rouge – 33000 Bordeaux – T+33 5 56 44 20 66
165 avenue du Prado – 13008 Marseille – T+33 4 91 29 90 80
11 rue La Fayette – 44000 Nantes – T+33 2 53 59 10 00
6 avenue de la Marseillaise – 67000 Strasbourg – T+33 3 68 33 90 00
22 rue Croix Baragnon – 31000 Toulouse – T+33 5 67 20 49 00

www.edmond-de-rothschild.com