WEEKLY UPDATE

The final furlong?

Today marked Brexit Day, the date by which the UK was scheduled to leave the European Union after almost 46 years. Of course, Parliament's two successive failed attempts to approve the Withdrawal Agreement (WA) meant that the timetable had slipped. Instead, Westminster used today to hold a third and final vote on the WA.

The result of the vote proved no surprise – 286 members of parliament (MPs) voted in favour and 344 against. While the margin of defeat is narrower than before – 58 votes as opposed to 230, then 149 – this means that the WA as negotiated with the European Union (EU) is very unlikely to be approved in time.

The result of today's vote means that the UK is now expected to indicate a new way forward to the EU or risk a disruptive "no-deal" exit on April 12, the deadline that was fixed at last week's European Council meeting.

Attention will now focus on next week's debates in the House of Commons. This week saw MPs given control of Wednesday's parliamentary agenda to debate a number of alternatives to the WA. All eight proposals were rejected, but some were defeated by a narrower margin than today's vote, suggesting that they might represent a possible basis for agreement among MPs.

On Monday April 1, MPs will again control the parliamentary agenda and are likely to focus on a smaller number of proposals. These may include:

- A second referendum to approve a deal (defeated by 27 votes on Wednesday);
- Joining a permanent customs union (defeated by only 8 votes); and
- The Labour party's plan for alignment with the EU, also including customs union (defeated by 70 votes).

It is impossible to predict which path might prove the most attractive to MPs at this stage, but it seems clear that the majority against a "no-deal" outcome (240 votes last Wednesday) is sufficiently strong to suggest it should be avoided.

As we have argued in recent weeks, it is increasingly clear that the UK and the EU will need more time to find a way out of the current impasse. For that to be possible, Parliament will need to find sufficient common ground in coming days to sketch the outlines of a new way forward. Time is of the essence as European Council President Donald Tusk has called an emergency council summit on April 10.

It remains to be seen whether the government would be willing to apply for an extension to negotiations on a basis proposed by MPs, but Theresa May appears to have few alternatives at this juncture. An extension would of course mean that the UK would be expected to hold European Parliament elections in May.

Bottom line. Looking ahead, it still seems likely that the balance of votes in Westminster would entail a rather softer form of Brexit than the WA. This helps explain why weakness in sterling in the aftermath of this afternoon's vote has been muted. But all other options, including another snap election or a second referendum, remain possible. Uncertainty continues to reign.

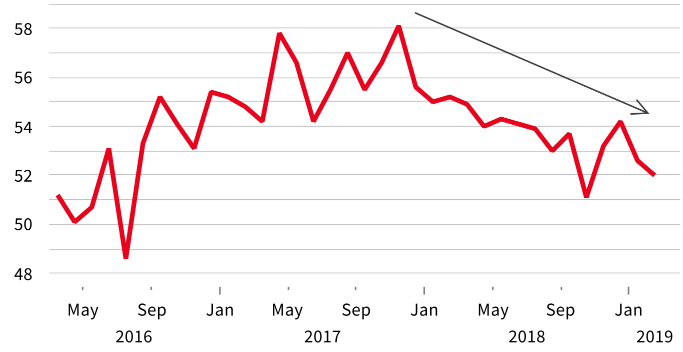
Sterling is back to its post-Brexit referendum level

GBP/USD spot rate

Sources: SGPB, Macrobond, data as of 28/03/2019

Manufacturing confidence remains on a downtrend

UK Manufacturing PMI Index



Source: Macrobond, IHS Markit, data as of 01/03/2019

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond (28/03/2019).

THIS WEEK AND NEXT

EUROZONE

- M3 money supply growth increased to 4.3% in February YoY from 3.8% in January, beating expectations of 3.9%. This eased fears that banks were stopping the credit flow to corporations amid a context of slower growth.
- Germany's IFO Business Climate index for March recovered slightly to 99.6 (vs 98.5 expected) from 98.7 in February, while expectations bounced from 94.0 to 95.6.
- In France, the final GDP reading for Q4 was confirmed at 0.3% QoQ, in line with market expectations, despite a series of violent anti-government protests that has weighed on business and consumer confidence.

Next week's key events		Per.	Prev.	Cons.
01 Apr	HICP YoY	Mar(P)	1.5%	1.5%
02 Apr	Unemployment rate	Feb	7.8%	7.8%
03 Apr	Retail sales YoY	Feb	2.2%	--

UNITED KINGDOM

- Contrary to market expectations, confidence declined in both Banks approved slightly fewer mortgages in February – possibly on Brexit concerns. New mortgage volumes slipped from 39,910 in January to 39,083 in February.
- While markets were expecting a reading of 5 in March, CBI's retail sales balance actually fell to -18 (vs. 0 a month earlier), the most in 17 months.
- According to Nationwide, UK house prices edged up 0.2% MoM in March, after no change in February, and ahead of market expectations.

Next week's key events		**Per.**	**Prev.**	**Cons.**
01 Apr	Manufacturing PMI	Mar	52	51.2
03 Apr	Reserve assets changes (USD)	Mar	73M	--
05 Apr	House prices MoM	Mar	5.9%	--

UNITED STATES

- The trade deficit narrowed further than expected in January to \$51.1bn from December's \$59.9bn. The improvement was driven by imports (down \$6.8bn) while exports increased \$1.9bn.
- Conference Board consumer confidence dropped unexpectedly in March by 7.3 points to 124.1 after fears of a global economic downturn emerged early this year.
- US Q4 GDP was revised down again to 2.2% QoQ, from 2.6% previously, reflecting markdowns to consumer and business spending.

Next week's key events		Per.	Prev.	Cons.
01 Apr	Manufacturing PMI	Mar	54.2	--
02 Apr	Durable goods	Feb	0.3%	-1.2%
04 Apr	Initial jobless claims	25 Mar, w/e	211k	--

ASIA & EMERGING COUNTRIES

- China's industrial profits dropped -14% YoY in February from +10.3% in the prior month – the worst slump since late 2011.
- In Brazil, the general consumer price index was up 4.6% YoY in March an acceleration from 4.1% previously, mainly due to higher food and transport prices. March consumer confidence hit a 4-month low at 91, down from 96.1.
- According to preliminary data, Tokyo CPI rose 0.9% YoY in March (vs. 0.6% in February), continuing the increase since the turn of the year.

Next week's key events		Per.	Prev.	Cons.
01 Apr	China: Manufacturing PMI	Mar	49.2	49.6
01 Apr	Japan: Manufacturing PMI	Mar	48.9	--
05 Apr	Japan: Household spending YoY	Feb	2.0%	2.2%

Sources: DataStream, Bloomberg, 28 March 2019
Note: YoY = year-on-year; QoQ = quarter-on-quarter; MoM = month-on-month, P = preliminary figure, A = advanced figure, F = final figure, seasonally adjusted, ECB = European Central Bank

Our 3-month targets for currencies and commodities

	Thursday close	3mth target
EUR/USD	1.12	1.11
GBP/USD	1.30	1.32
EUR/CHF	1.12	1.11
USD/JPY	111	110
Brent	\$67.2	\$68
Gold (once)	\$1290	\$1250

Changes made to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance

THIS WEEK'S Q&A

What is the economic backdrop to India's general election?

This week we look at the upcoming Indian general elections, the country's economic backdrop five years after the previous election, and who Prime Minister Modi is up against.

The election details

India, the world's largest democracy (875 million potential voters), will shortly hold a general election. Voting will take place in 7 phases from April 11 to May 19, with results set to be announced on May 23.

The country is divided into 543 constituencies, all represented by a single MP selected in a first-past-the-post contest. The five most recent polls give Prime Minister Narendra Modi (Bharatiya Janata Party, or BJP) an average of 274 seats, two more than the minimum needed for an absolute majority but down from 2014's 282, suggesting he could narrowly hold on to power. However, the main opposition candidate Rahul Gandhi (Indian National Congress party) has been narrowing the gap.

Will PM Modi retain power?

After five years in office, PM Modi has failed to deliver on several promises made during the 2014 campaign to significantly boost growth:

- While India remains one of the fastest growing economies (GDP rose 7.2% in 2018, at close to $2.6tn), it has failed to create sufficient jobs for its rapidly expanding workforce (10 million new workers enter the labor market every year), especially for the young with a higher education.

GDP growth vs. market equity since Modi's 2014 election

Source: SGPB, Macrobond, data as of 28/03/2019

Past performance should not be seen as a guarantee of future returns.

- India is still a largely agrarian society, which had penalized growth recently. Agriculture recently registered a third consecutive quarter of sluggish growth, at +2.7% YoY.

PM Modi's five-year term

In addition, Modi disappointed the middle class with several controversial policy measures (e.g., demonetization) and mixed results of landmark reforms (poor implementation of the Goods & Services Tax, incomplete recapitalisation of the state banks).

The current account deficit has widened from 0.7% of GDP in fiscal 2017 to 1.9% last year and is set to reach 2.7% in fiscal 2019, on the back of higher crude oil prices and weak goods exports. The government has pushed the fiscal deficit to 3.5% of GDP, above its 3.3% target, as populist pre-election giveaways have pressured public finances. As a result, India's debt to GDP ratio is close to 70%, well above the average for major emerging nations.

Despite low growth in agricultural output, India is currently producing more food than needed, keeping prices low. And as food represents almost 40% of headline consumer price inflation, this is likely to keep inflation below the Reserve Bank of India's 4% target in coming quarters. The RBI was the first major central bank to address the slowdown in growth by cutting rates in early 2019 to prop up private investment and another cut is expected at its April meeting.

Bottom line

With India's first absolute majority in 30 years, Mr Modi appears to have squandered an opportunity to embark on much-needed economic reforms during his first term. However, the recent bounce in his approval rating on the back of his hardline stance with Pakistan over Kashmir may afford him a second chance.

MARKET PERFORMANCE

Past performance should not be seen as a guarantee of future returns.

Interest rates	Last	1wk		3mth	YTD	12mth
EONIA (EUR)	-37 bp	1 bp	➡	-1 bp	-1 bp	0 bp
3mth Euribor (EUR)	-31 bp	0 bp	➡	0 bp	0 bp	2 bp
3mth Libor (USD)	259 bp	-1 bp	➡	-21 bp	-22 bp	28 bp
3mth Libor (GBP)	83 bp	-1 bp	➡	-7 bp	-8 bp	14 bp
10-year US Treasury bond	239 bp	-15 bp	⬇	-35 bp	-30 bp	-39 bp
10-year German bond	-7 bp	-11 bp	⬇	-31 bp	-32 bp	-57 bp
10-year French bond	31 bp	-9 bp	⬇	-40 bp	-40 bp	-42 bp
10-year UK bond	100 bp	-6 bp	⬇	-27 bp	-27 bp	-37 bp

Credit	1wk		3mth	YTD	12mth
BAML EURO Corp. IG	0.4%	⬆	3.1 %	3.1 %	2.3 %
BAML EURO Corp HY	0.1%	⬆	5.1 %	5.1 %	1.8 %
BAML GBP Corp IG	0.1%	➡	4.9 %	4.9 %	3.9 %
BAML US IG	1.1%	⬆	5.1 %	5.1 %	5.1 %
BAML US HY	0.0%	➡	7.1 %	7.1 %	5.7 %
BAML Global EM Sov. External Plus	-0.6%	⬇	5.4 %	5.4 %	1.2 %

Exchange rates	Last	1wk		3mth	YTD	12mth
EUR/USD	1.12	-1.3 %	⬇	-1.9 %	-2.2 %	-8.8%
EUR/CHF	1.12	-0.9 %	⬇	-0.7 %	-0.7 %	-5.0%
GBP/USD	1.30	-0.5 %	⬇	2.7 %	2.2 %	-7.3%
USD/JPY	111	-0.2 %	⬇	0.3 %	1.0 %	3.5%
USD/BRL	3.90	2.8 %	⬆	0.5 %	0.5 %	17.5%
USD/CNY	6.74	0.6 %	⬆	-2.0 %	-2.0 %	7.0%
USD/RUB	65.0	1.7 %	⬆	-6.5 %	-6.8 %	12.5%

Government bonds*	1wk		3mth	YTD	12mth
United States (3-7yr)	0.7 %	⬆	2.0 %	2.0 %	4.4 %
United Kingdom (3-7yr)	0.1 %	⬆	1.0 %	1.0 %	2.7 %
Germany (3-7yr)	0.3 %	⬆	0.7 %	0.7 %	1.7 %
Japan (3-7yr)	0.1 %	⬆	0.2 %	0.2 %	0.4 %

Equities*	Last	1wk		3mth	YTD	12mth
MSCI AC World	505	-1.5 %	⬇	12.3 %	11.6 %	3.4 %
Eurostoxx 50	3,320	-1.4 %	⬇	11.7 %	11.1 %	3.4 %
DAX	11,428	-1.1 %	⬇	8.2 %	8.2 %	-4.3 %
CAC 40	5,297	-1.5 %	⬇	13.5 %	12.3 %	6.7 %
S&P 500	2,815	-1.4 %	⬇	13.9 %	12.9 %	10.3 %
FTSE 100	7,234	-1.6 %	⬇	8.7 %	8.8 %	7.3 %
SMI	9,406	-0.5 %	⬇	12.9 %	12.9 %	10.9 %
Topix	1,583	-0.9 %	⬇	7.2 %	7.2 %	-4.6 %
IBOV Brazil	94,389	-2.4 %	⬇	7.4 %	7.4 %	12.5 %
MICEX Russia *	2,492	-0.6 %	⬇	5.7 %	5.7 %	10.8 %
MSCI EM	1,045	-2.2 %	⬇	9.0 %	8.6 %	-7.5 %
SENSEX 30 India	38,546	0.4 %	⬆	7.1 %	7.1 %	18.4 %
Hang Seng (H-K)	28,775	-1.0 %	⬇	13.3 %	11.8 %	-0.7 %
Shanghaï Composite	2,995	-3.4 %	⬇	20.1 %	20.1 %	-4.1 %

Commodities	Last	1wk		3mth	YTD	12mth
Brent	$67.2	-1.4 %	⬇	26.4 %	26.4 %	-4.0 %
Gold	$1,290	-1.5 %	⬇	1.0 %	0.7 %	-3.0 %
Silver	$15.1	-2.7 %	⬇	-1.7 %	-2.8 %	-7.5 %

Source: DataStream, on 28 March 2019.
1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7 year returns. Figures are rounded.

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