

WEEKLY UPDATE

Brextension or Bre-finity?

This week's European Council (EC) summit ended with a last-minute agreement to extend the Brexit deadline again, a deal which appears to satisfy no one. Theresa May had asked for an extension to June 30, the same deadline sought by Emmanuel Macron who has pushed for a rapid solution to the deadlock. On the other hand, Angela Merkel and EC President Donald Tusk were keen to offer more breathing space, until end March 2020. The compromise, announced early on Thursday morning, was to extend by just over 6 months, to 31 October 2019.

This means that the UK is now expected to uphold its written commitment to hold European Parliament elections on May 23. The summit communique underlines the flexibility of the extension. If the UK succeeds in voting the Withdrawal Agreement (WA) in the interim, Brexit Day would become the first day of the month following ratification by the EU 27. This means that the new UK MEPs' tenure could be very short indeed, given that a WA vote may come as early as today. In addition, the communique leaves open the possibility – hitherto excluded – that there could be other extensions after October 31.

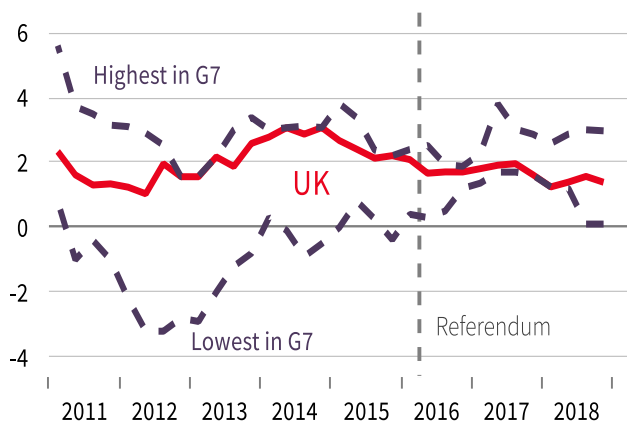
As highlighted in our previous reports, the first two WA votes were in fact on two separate documents – the WA itself, which is designed to allow a clean break with the past, and the Political Declaration (PD), which covers the broad outline of the future relationship between the UK and the EU. The ongoing negotiations between the government and the Labour opposition are focused on the PD, the EU having repeatedly stressed that the WA will not be revised. Various options are under review – Norway-style access to the Single Market, Turkey-style membership of the Customs Union or a free-trade agreement like those signed with Canada and Japan. Each would represent a loss of influence for the UK, but each would offer a “softer” non-disruptive form of Brexit.

So, what's next? While the prospect of a no-deal “hard” Brexit is more remote than ever, all options remain on the table. PM May could succeed in gaining approval for the WA, in which case she has promised to step down. She could come under pressure to resign in any case, although another formal leadership challenge is not yet possible under party rules. There is increasing talk that snap elections could be called, although it is debatable whether two-thirds of members of parliament could be found to vote in favour, given current voter dissatisfaction with Westminster. A second referendum has also been mooted, although recent polls showing a slim Remain majority are little-changed from polls before the June 2016 vote.

Bottom line. With this week's extension, the diminished risk of a “hard” Brexit should take some of the pressure off sterling. However, continuing uncertainty as to the ultimate outcome means any rally is likely to be short-lived. In this environment, business investment and foreign direct investment plans could remain on hold, and UK growth could continue to disappoint.

UK growth has weakened since the Brexit vote

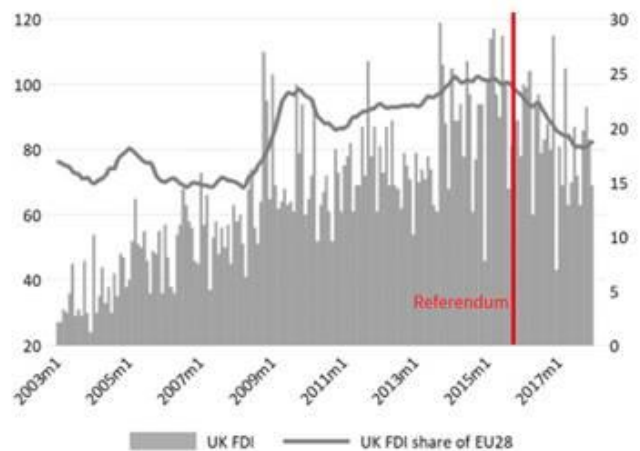
GDP growth rate of G7 countries (%YoY)



Sources: SGPB, Macrobond, Q4 2018 data

Softer FDI in the UK since the Brexit vote

UK number of inward FDI projects



Source: University of Sussex, data as of October 2018

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

All data taken from Bloomberg, Macrobond (12/04/2019). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA254/APR/2019

OUR MACRO-COMMENTS

This week and next

EUROZONE

- As expected, the European Central Bank left all rates unchanged.
- Sentix investor sentiment ticked up from -2.2 to -0.3 in April, continuing the improvement from February's 4-year low of -3.7.
- In France, industrial production rose 0.4% MoM in February, after 1.2% in January. In Italy, factory output was stronger than expected, up 0.8% MoM in February after 1.9% in January.
- German imports fell faster than exports in February (-1.6% MoM against -1.3% respectively) leaving the trade surplus higher at €17.9bn versus 14.6bn in January.
- The Italian government cut its 2019 GDP forecast from 1.0% to 0.2% and now expects its debt-to-GDP ratio to reach 132.6%.

UNITED KINGDOM

- The British economy grew 0.2% MoM in February, after 0.5% in January, mainly due to stockpiling. GDP rose 0.3% over the three months to February, compared to the prior period.
- Industrial output beat expectations rising 0.6% MoM in February (against 0.7% in January). Manufacturing provided the largest upward contribution, rising 0.9% as inventories swelled.
- The trade deficit of goods widened £6.5bn to £41.4bn in the three months to February.
- According to the British Retail Consortium, retail sales dropped for the second straight month in March, down from -0.1% YoY to -1.1%.



Next week's key events

| | | Per. | Prev. | Cons. |
|--------|------------------------|---------|-------|-------|
| 17 Apr | Headline inflation YoY | Mar (F) | 1.5% | 1.4% |
| 18 Apr | Manufacturing PMI | Apr (P) | 47.5 | 47.9 |
| 18 Apr | Services PMI | Apr (P) | 53.3 | 53.3 |



Next week's key events

| | | Per. | Prev. | Cons. |
|--------|------------------------------|------|-------|-------|
| 16 Apr | Unemployment rate | Feb | 3.9% | 4.0% |
| 16 Apr | 3-month average earnings YoY | Feb | 3.4% | 3.5% |
| 17 Apr | Headline inflation YoY | Mar | 1.9% | 2.0% |

UNITED STATES

- Headline inflation came above expectations at 1.9% YoY in March, after 1.5% in February. On the other hand, core price rises slowed from 2.1% to 2.0% against expectations for no change.
- Factory orders contracted modestly 0.5% MoM in February led by a -4.5% drop in transportation orders.
- According to the NFIB, March small business confidence remained roughly unchanged at 101.8 versus 101.7 the month before.
- Initial jobless claims fell 8'000 to 196'000 for the week ended April 6, the lowest level since 1969, highlighting the sustained labour market strength.

ASIA & EMERGING COUNTRIES

- In China, headline inflation accelerated from 1.5% YoY to 2.3% in March to ease deflation worries.
- In Japan, core machinery orders fell from -2.9% YoY to -5.5% in February – worse than expected.
- Japanese producer prices rose more than expected from 0.9% to 1.3% in March, boding well for inflation.
- In South Africa, mining production fell -7.5% YoY in February – its biggest contraction in 3 years.
- Taiwan exports fell -4.4% YoY in March, the fifth consecutive decline.



Next week's key events

| | | Per. | Prev. | Cons. |
|--------|---------------------------|---------|-------|-------|
| 16 Apr | Industrial production MoM | Mar | 0.0% | 0.3% |
| 17 Apr | Trade balance (\$bn) | Feb | -51.1 | -53.7 |
| 18 Apr | Manufacturing PMI | Apr (P) | 52.4 | -- |



Next week's key events

| | | Per. | Prev. | Cons. |
|--------|------------------------------|------|-------|-------|
| 17 Apr | Japan: Trade balance (¥bn) | Mar | 334.9 | -- |
| 17 Apr | China: Industrial output YoY | Mar | 5.3% | 5.9% |
| 17 Apr | China: GDP YoY | Q1 | 6.4% | 6.3% |

Sources: DataStream, Bloomberg, 12 April 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, PMI = Purchasing Manager's Index.

Our 3-month targets for currencies and commodities

| | Thursday close | 3mth target |
|------------|----------------|-------------|
| EUR/USD | 1.13 | 1.11 |
| GBP/USD | 1.31 | 1.32 |
| EUR/CHF | 1.13 | 1.11 |
| USD/JPY | 111.7 | 110 |
| Brent | \$71.4 | \$68 |
| Gold (oz.) | \$1296 | \$1250 |

No change to our 3-month targets this week.

Forecast figures are not a reliable indicator of future performance.

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 | 0 bp → | 0 bp | -1 bp | 0 bp |
| 3mth Euribor (EUR) | -31 bp | 0 bp → | 0 bp | 0 bp | 2 bp |
| 3mth Libor (USD) | 260 bp | 1 bp → | -19 bp | -21 bp | 26 bp |
| 3mth Libor (GBP) | 83 bp | 0 bp → | -9 bp | -8 bp | 6 bp |
| 10-year US Treasury bond | 250 bp | -1 bp → | -20 bp | -19 bp | -29 bp |
| 10-year German bond | -1 bp | 0 bp → | -19 bp | -25 bp | -50 bp |
| 10-year French bond | 34 bp | -3 bp ↓ | -33 bp | -37 bp | -40 bp |
| 10-year UK bond | 115 bp | 6 bp ↑ | -14 bp | -12 bp | -24 bp |

| Government bonds* | 1wk | 3mth | YTD | 12mth |
|------------------------|---------|------|------|-------|
| United States (3-7yr) | 0.0% → | 1.5% | 1.5% | 4.2% |
| United Kingdom (3-7yr) | -0.2% ↓ | 0.7% | 0.6% | 2.4% |
| Germany (3-7yr) | 0.0% → | 0.5% | 0.6% | 1.7% |
| Japan (3-7yr) | 0.0% → | 0.1% | 0.1% | 0.2% |

| Credit | 1wk | 3mth | YTD | 12mth |
|-----------------------------------|---------|------|------|-------|
| BAML EURO Corp. IG | 0.2% ↑ | 3.5% | 3.3% | 2.4% |
| BAML EURO Corp HY | 0.3% ↑ | 5.4% | 6.3% | 2.5% |
| BAML GBP Corp IG | 0.0% → | 4.4% | 4.5% | 3.7% |
| BAML US IG | 0.4% ↑ | 4.6% | 5.0% | 4.9% |
| BAML US HY | 0.5% ↑ | 5.0% | 8.4% | 6.0% |
| BAML Global EM Sov. External Plus | -0.2% ↓ | 4.2% | 5.8% | 1.3% |

| Exchange rates | Last | 1wk | 3mth | YTD | 12mth |
|----------------|-------|---------|-------|-------|-------|
| EUR/USD | 1.13 | 0.3% ↑ | -1.9% | -1.9% | -9.0% |
| EUR/CHF | 1.13 | 0.6% ↑ | 0.0% | 0.3% | -4.7% |
| GBP/USD | 1.31 | -0.2% ↓ | 1.7% | 2.3% | -7.9% |
| USD/JPY | 111.7 | 0.0% → | 2.9% | 1.9% | 4.6% |
| USD/BRL | 3.86 | 0.0% → | 4.0% | -0.6% | 14.3% |
| USD/CNY | 6.72 | 0.0% → | -0.6% | -2.3% | 7.2% |
| USD/RUB | 64.6 | -1.3% ↓ | -3.4% | -7.3% | 3.4% |

| Equities* | Last | 1wk | 3mth | YTD | 12mth |
|--------------------|--------|---------|-------|-------|-------|
| MSCI AC World | 519 | 0.3% ↑ | 10.4% | 14.7% | 4.5% |
| Eurostoxx 50 | 3,435 | -0.2% ↓ | 12.5% | 15.2% | 4.1% |
| DAX | 11,935 | -0.4% ↓ | 9.6% | 13.0% | -2.9% |
| CAC 40 | 5,486 | 0.4% ↑ | 15.0% | 16.3% | 7.4% |
| S&P 500 | 2,888 | 0.4% ↑ | 11.8% | 15.9% | 11.5% |
| FTSE 100 | 7,418 | 0.3% ↑ | 8.8% | 11.9% | 6.9% |
| SMI | 9,549 | 0.3% ↑ | 10.0% | 15.2% | 13.2% |
| Topix | 1,607 | -0.8% ↓ | 6.2% | 8.8% | -4.7% |
| IBOV Brazil | 94,755 | -1.6% ↓ | 1.2% | 7.8% | 11.2% |
| MICEX Russia * | 2,551 | 0.6% ↑ | 4.4% | 8.2% | 16.4% |
| MSCI EM | 1,087 | 0.7% ↑ | 9.1% | 13.1% | -4.9% |
| SENSEX 30 India | 38,607 | -0.2% ↓ | 7.4% | 7.2% | 15.2% |
| Hang Seng (H-K) | 29,839 | -0.3% ↓ | 12.4% | 15.9% | 0.0% |
| Shanghai Composite | 3,190 | -1.7% ↓ | 24.9% | 27.9% | -0.6% |

| Commodities | Last | 1wk | 3mth | YTD | 12mth |
|-------------|---------|---------|-------|-------|-------|
| Brent | \$71.4 | 2.4% ↑ | 17.6% | 34.4% | -1.8% |
| Gold | \$1,296 | 0.6% ↑ | 0.4% | 1.1% | -4.6% |
| Copper | \$6,391 | -0.7% ↓ | 8.0% | 7.4% | -7.6% |

Source: DataStream, on 11 April 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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