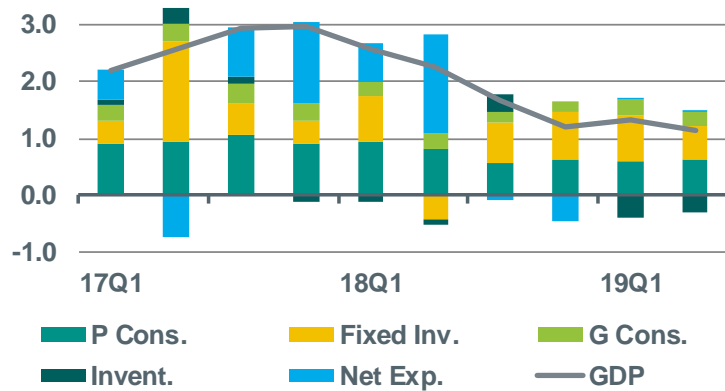


European growth weakened due to slowing net exports

1. Eurozone slows sharply due to net exports

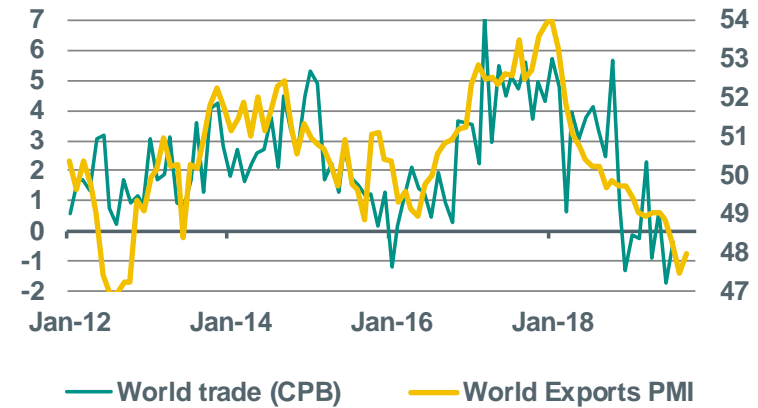
Pps yoy, %



2. World trade has collapsed

% yoy

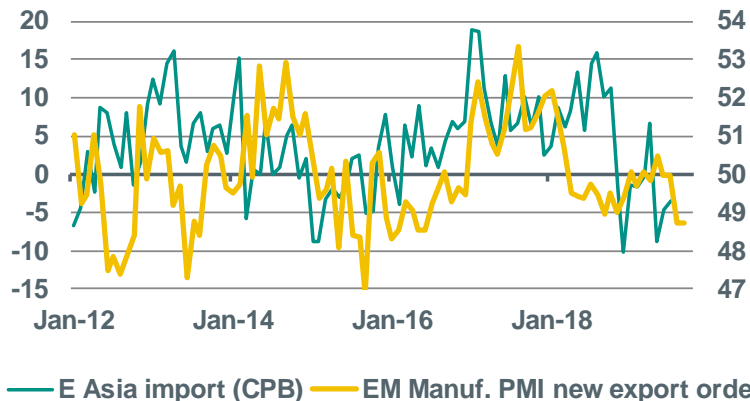
Index



3. Asian demand weakening

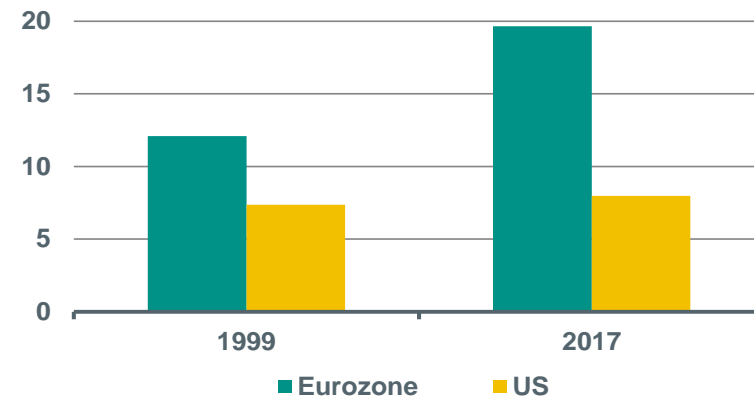
% yoy

Index



4. Eurozone is more exposed to external environment

Exports (eurozone: extra-EZ), % GDP



Export environment likely to remain challenging

1. China monetary swings

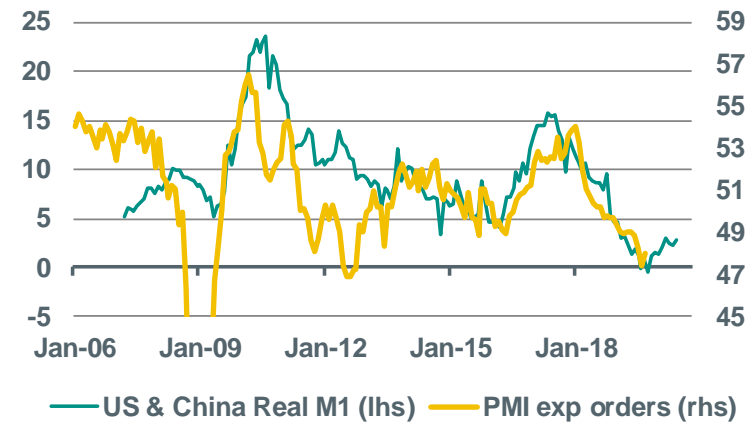
Real China M1, % yoy



2. US and China modest monetary easing

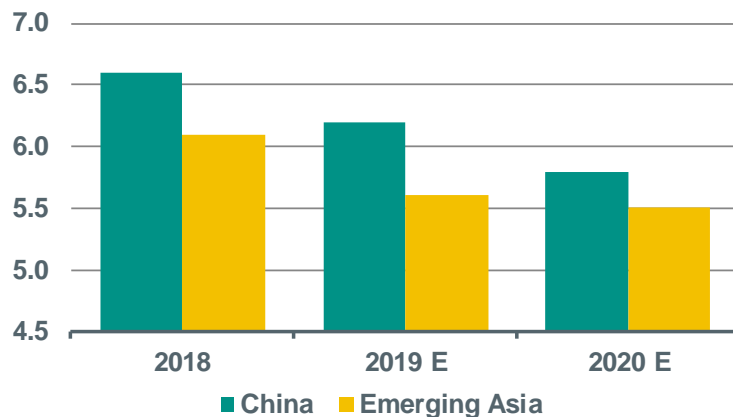
% yoy

Index, 9 months lag



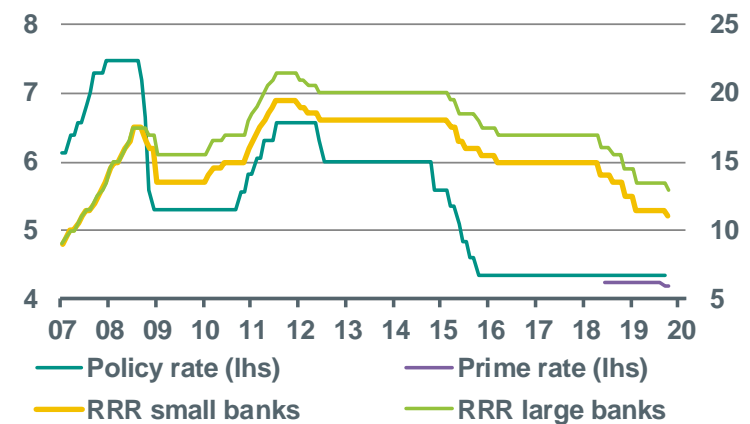
3. China weakness will continue to weigh on eurozone

GDP growth China and Emerging Asia, % yoy



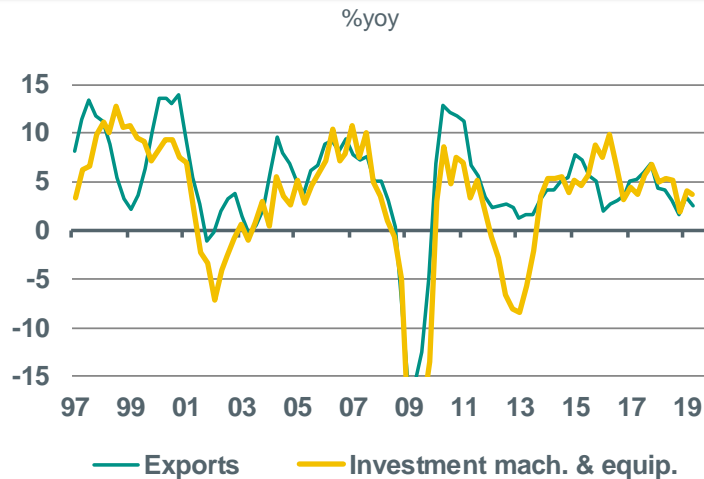
4. China stimulus more modest this time

%

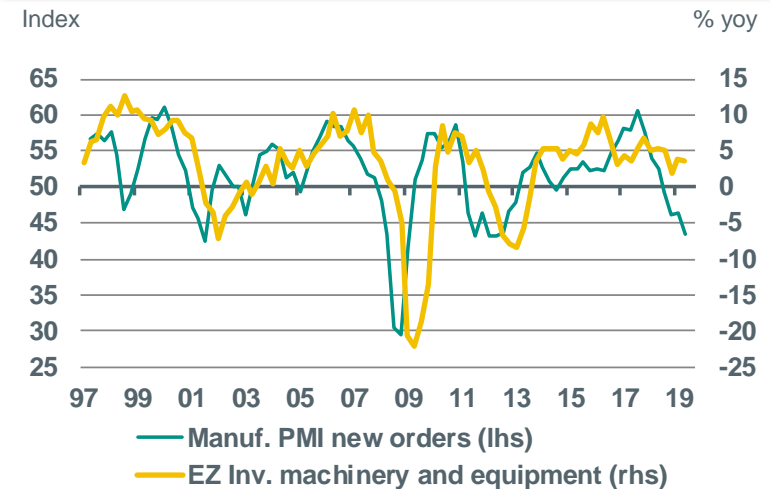


Weaker exports and industry are weighing on investment and services

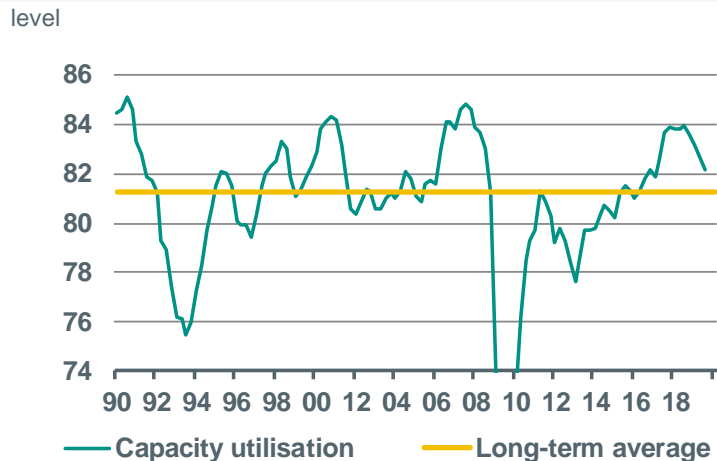
1. Exports and Investment move in synch



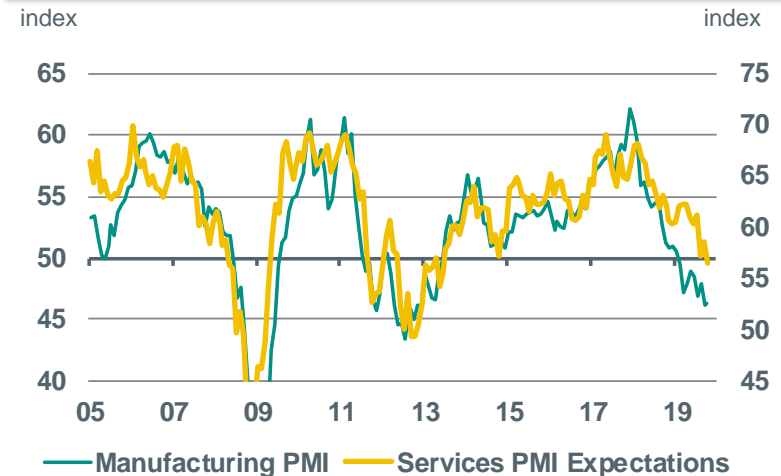
2. Manufacturing orders point to slower investment



3. Capacity utilisation rate has fallen



4. Services



Unemployment rate to rise, wage growth to slow down

1. Growth in temporary employment has dropped



2. Decline in unemployment rate has weakened



3. Employment PMI has declined

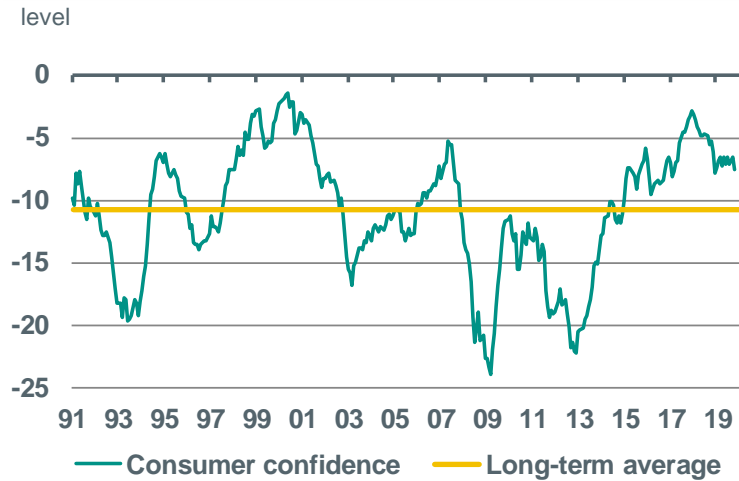


4. Has wage growth peaked?

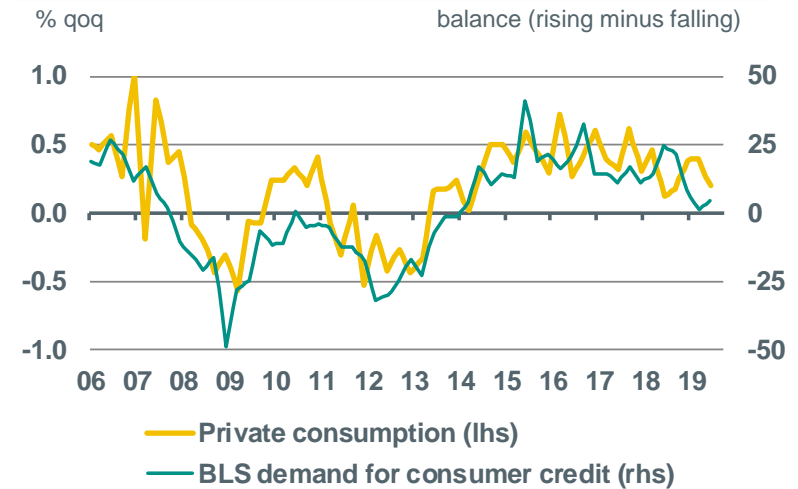


Factors that should cushion the blow

1. Consumer confidence still elevated ...



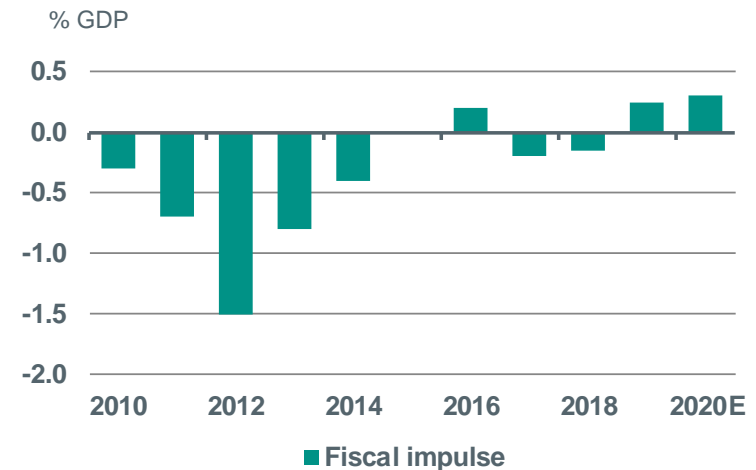
2. ... helped by low interest rates



3. Housing market firm



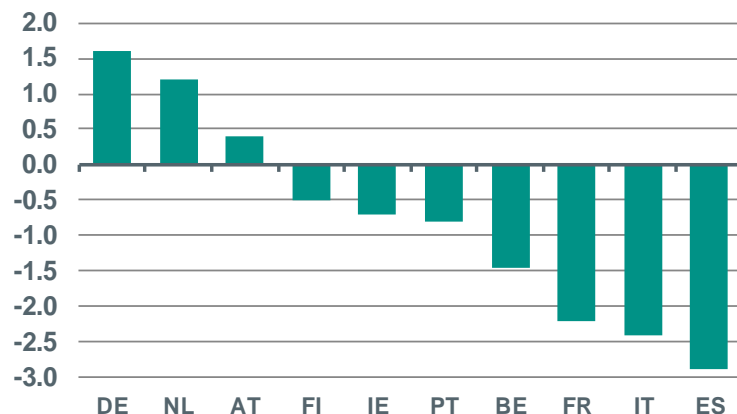
4. Fiscal policy modestly supportive



The potential for euro fiscal stimulus

1. Fiscal room according to divergence from MTO

% GDP (Total EUR 65bn, of which DE EUR 54bn, NL EUR 9bn)



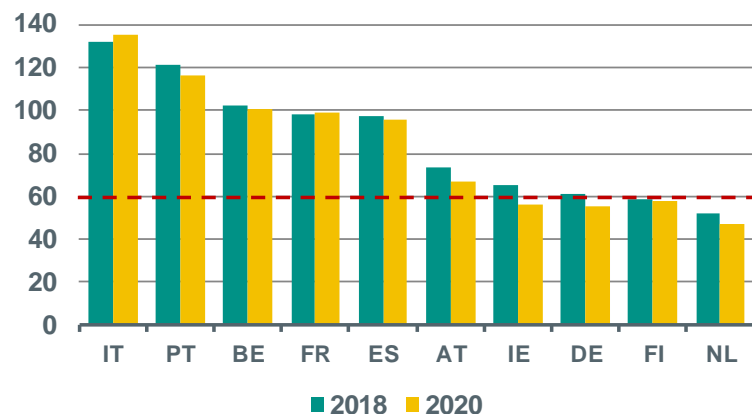
2. Fiscal room according to debt stabilisation

% GDP (Total EUR 160bn, of which DE 85bn, NL EUR 25bn)



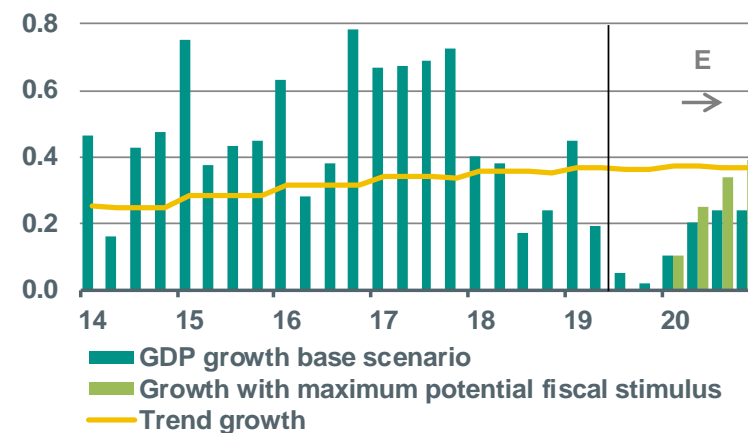
3. Change in debt ratios without extra stimulus

% GDP



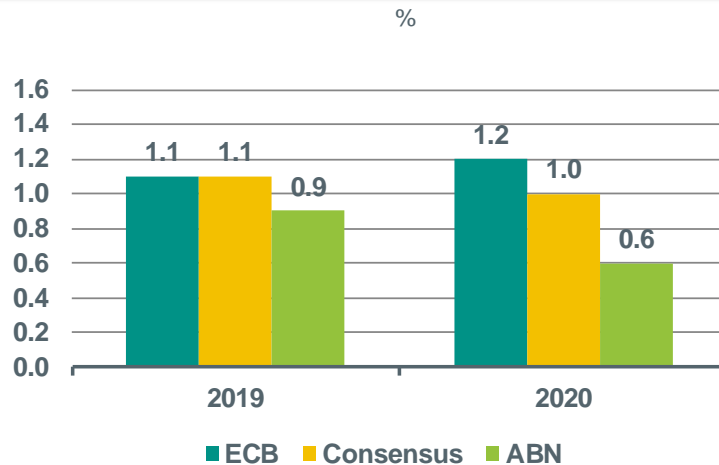
4. GDP growth versus the trend rate

% qoq

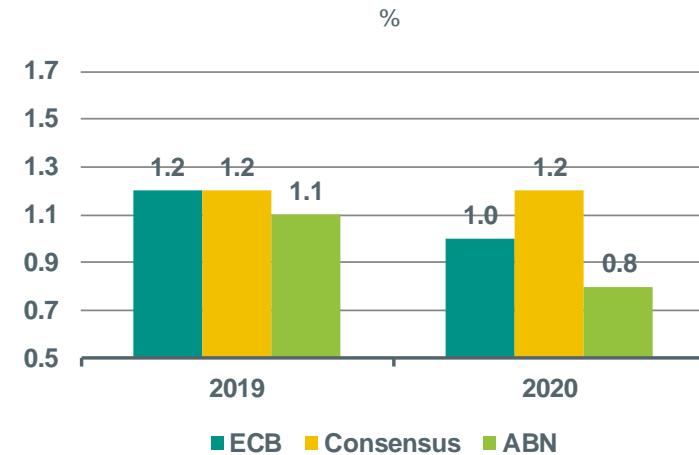


We are much less optimistic on growth & inflation

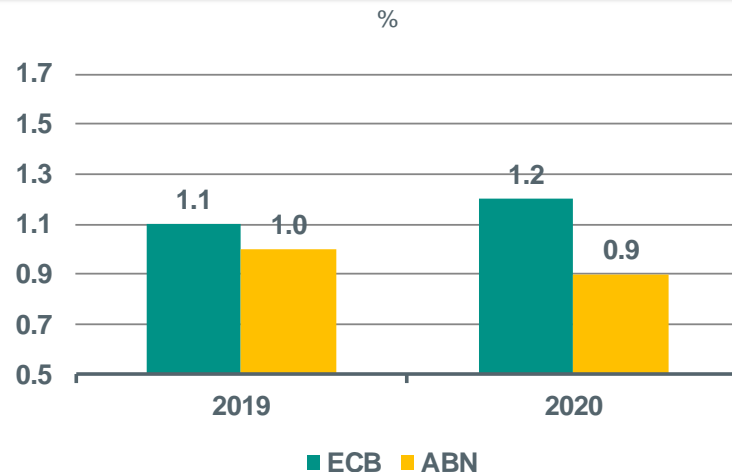
1. GDP growth forecasts



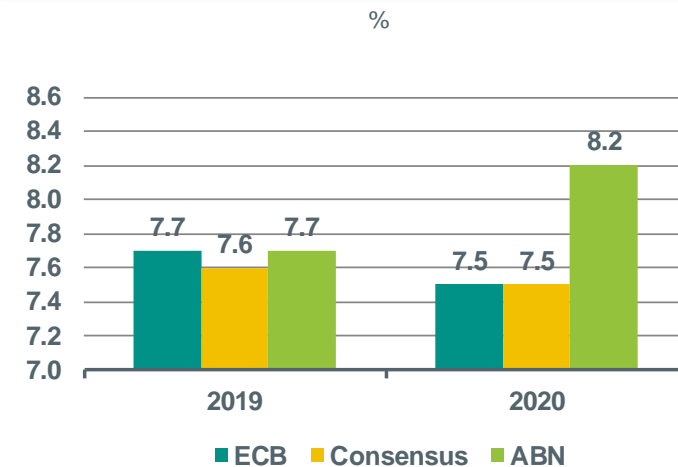
2. HICP inflation forecasts



3. Core inflation forecasts



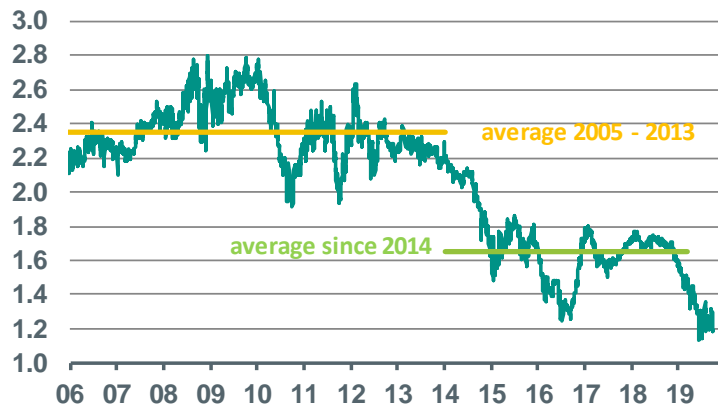
4. Unemployment rate



The ECB's inflation problem will trigger further action

1. Inflation expectations dislodged

Euro 5y5y inflation swap, %



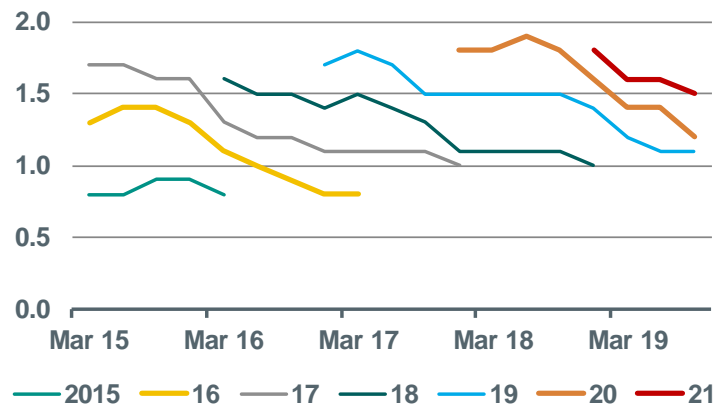
2. Inflation structurally below target

% yoy, 3 m mav.



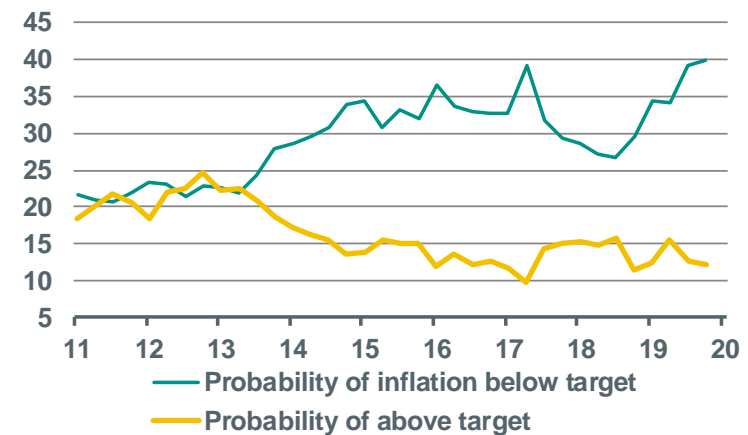
3. ECB structurally overestimates inflation

ECB Staff projection for core inflation in year X, %



4. Forecasters see downside inflation risks

Professional forecasters view of inflation risks 5 years ahead, %



ECB will inevitably need to step up the pace of asset purchases

September 2019

- 10bp cut in deposit rate
- APP-II announced: purchases start on 1 November 2019
- 'Mitigating measures' for banks: deposit tiering and TLTROs with more favourable terms

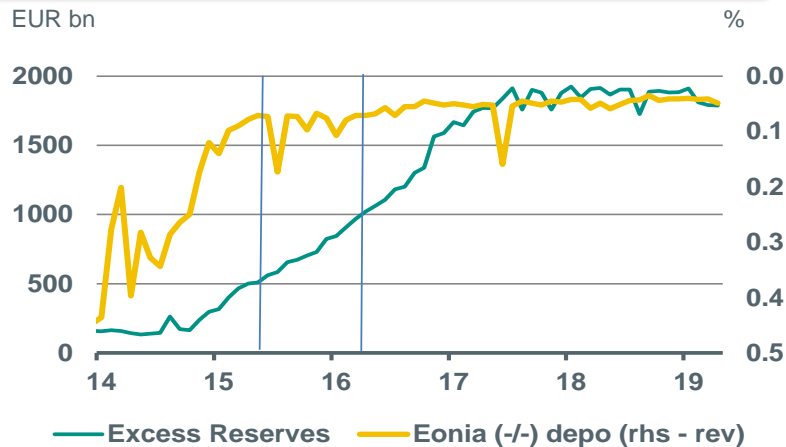
December 2019
Second 10bp cut in deposit rate; down to -0.6%

March 2020
Increase in pace of net asset purchases

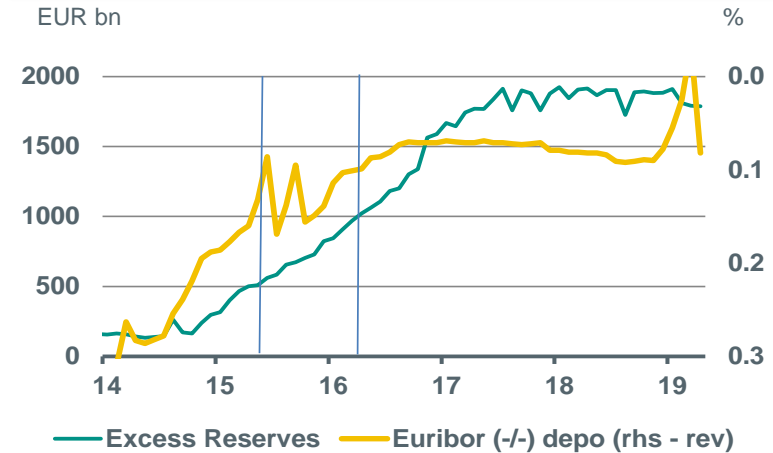
November 2019
Start of net asset purchases at a monthly pace of EUR20bn, open-ended

ECB needs to watch interbank rates following tiering

1. Excess reserves and EONIA



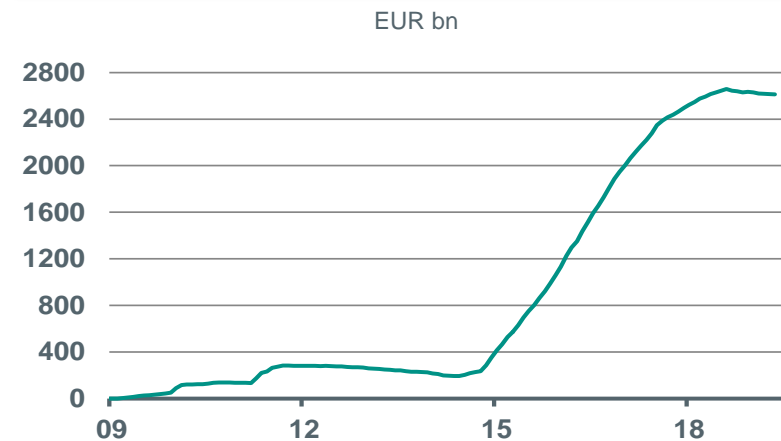
2. Excess reserves and Euribor



3. ECB long-term loans outstanding



4. ECB securities holdings (APP)



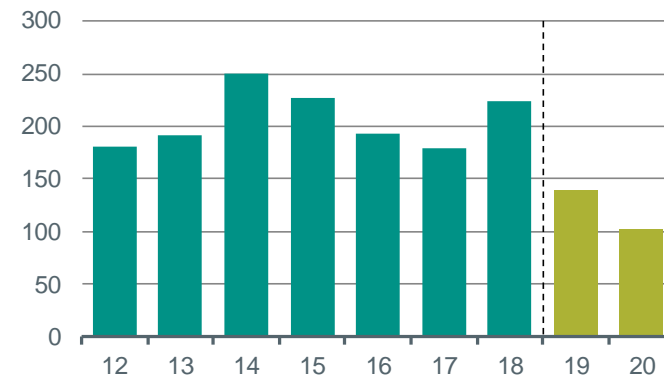
US: Weak manufacturing will ultimately hit consumption

Weak manufacturing weighing on investment

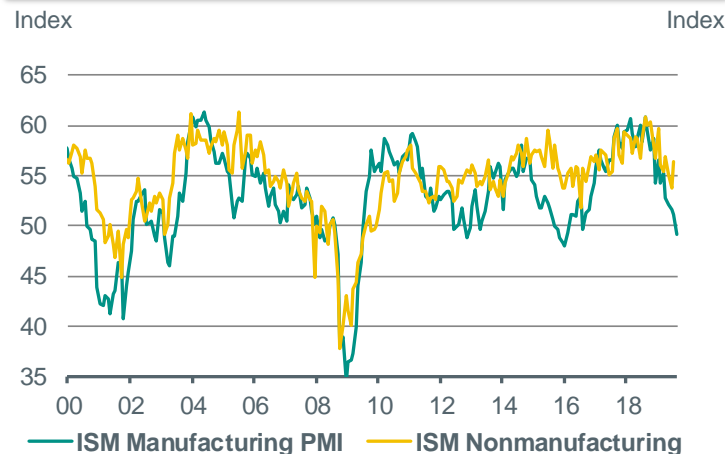


Payrolls have slowed and will slow further

Monthly average payrolls growth, thousands



Manufacturing usually leads the cycle

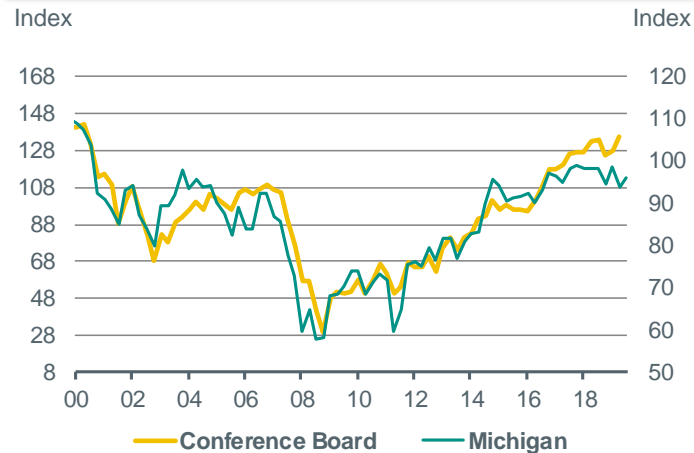


US-China trade war is not going away:

- A long term strategic power struggle
- Many Democrats support it
- Even if there is a deal, it won't fully repeal tariffs...
- ...and businesses will remain cautious

US: But household fundamentals are strong, preventing a recession

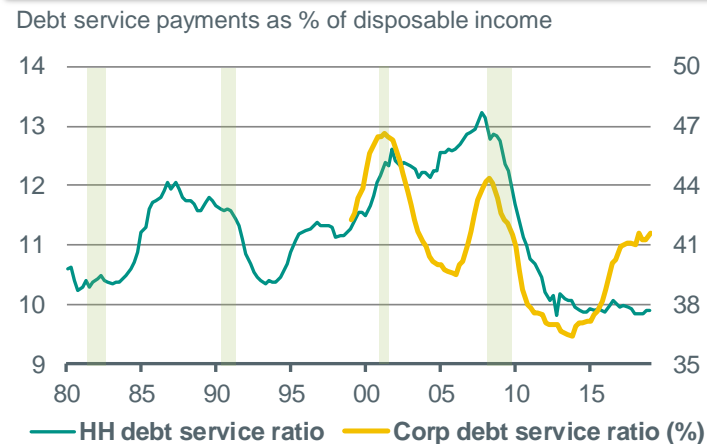
It will take a lot to budge the consumer



Falling mortgage rates supporting housing



Low debt service ratios...



...and high savings rate can cushion slower growth



US: Expansions don't die of old age

- The current expansion is the longest on record. Is a recession 'overdue'?
- Capacity constraints and shocks typically cause recessions
- 'Shocks' can be supply shocks (eg. oil price spike), financial excesses, or policy shocks

Recessions typically happen when a shock occurs late into the cycle

Peak	Trough	Length (months)	Expansion length	Backdrop / Trigger
Nov-73	Mar-75	16	36	OPEC formation and oil price shock, high inflation, high interest rates
Jan-80	Jul-80	6	58	Double dip recession following second oil price shock. High interest rates under Volcker to fight inflation.
Jul-81	Nov-82	16	12	
Jul-90	Mar-91	8	92	1990 oil price spike on Gulf War, high interest rates, 1980s debt overhang
Mar-01	Nov-01	8	120	Burst of dot-com bubble, restrictive monetary policy
Dec-07	Jun-09	18	73	Burst of subprime mortgage bubble, restrictive monetary policy
Future recession?	???	???	120	Possible triggers: Trade war, Corp deleveraging

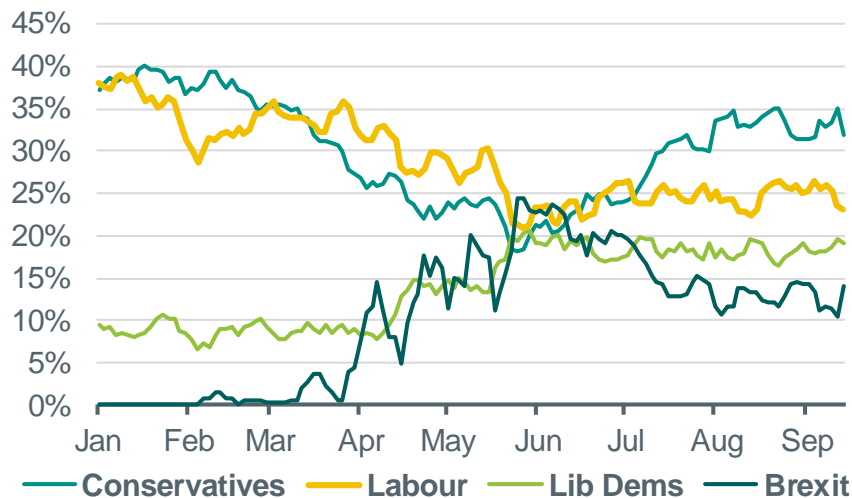
Source: NBER (recession dates), ABN AMRO Group Economics

UK: No-deal Brexit risk much lower; December election looms

- With PM Johnson's Brexit deal struggling to get through parliament, an election looms in December
- While the Conservatives lead in the polls, the first-past-the-post electoral system and the vote split between four parties makes the outcome more unpredictable
- However, in any scenario, a no-deal Brexit looks unlikely. With a Conservative majority, the deal will be passed. With another hung parliament, we expect a new referendum

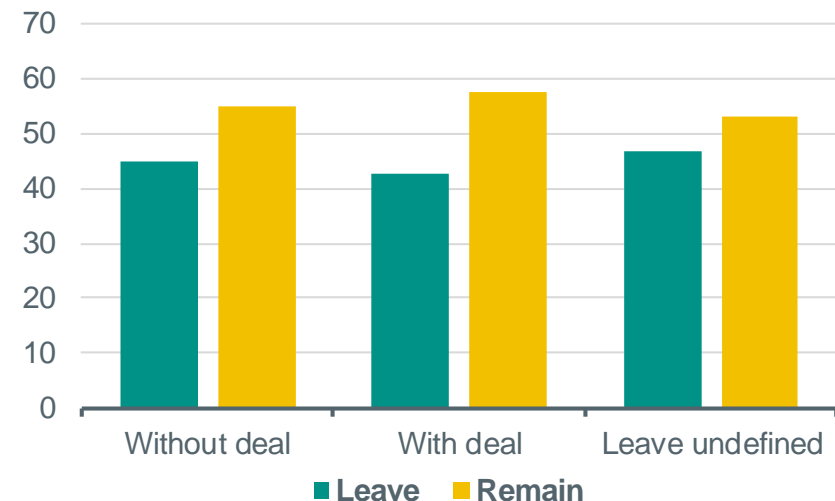
Elections move from two- to four-horse race

% voting intention in next general election



'Remain' has a bigger lead when 'Leave' is defined

% voting intention in new EU referendum



Main forecasts

Economic outlook		2018	2019	2020	
GDP					
Eurozone		1.9	0.9	0.6	
US		2.9	2.2	1.3	
China		6.6	6.2	5.8	
Inflation					
Eurozone		1.7	1.1	0.8	
	Core	1.0	1.0	0.9	
US		2.4	1.8	2.0	
	Core	2.1	2.0	2.1	
Rates and FX		Spot	+3M	2019	2020
ECB depo rate		-0.50	-0.60	-0.60	-0.60
Fed IOER		2.00	1.50	1.50	1.50
German 10Y Bund		-0.38	-0.70	-0.70	-0.80
US 10Y Treasury		1.80	1.60	1.60	1.60
EUR/USD		1.11	1.12	1.12	1.15