

Franco-German Ministers' Meeting Yields No New Measures

Summary | Today's News in Detail | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts | Recent Research

Summary

Franco-German meeting in Berlin: little comes from talks prior to EU Summit. According to a statement after talks in Berlin between the French and German Finance and Economy Ministers and central bankers, the *"issue of how to strengthen investment in Europe was a focal point for the joint talks"*.

Bundesbank's Weidmann: oil-price drop amounts to mini-stimulus programme.

German Economy Minister Gabriel: Eurozone does not need short-term stimulus and should focus on projects that boost competitiveness.

French government would suffer extraordinary defeat if elections were held today, according to a CSA poll for conservative daily *Le Figaro*.

Italy: new electoral law could enter into force from 2016, PM Renzi says, noting that the approval of the electoral reform by Parliament should be completed as soon as possible

Spain: Services PMI falls sharply in November to 52.7 from 55.9 in October, lowest level since Nov 2011.

Greek PM Samara calls on population to ignore Syriza and promises no new budget cuts.

Today's News in Detail

Franco-German meeting in Berlin: little comes from the talks prior to EU Summit. The German Finance Ministry indicated on Tuesday in a statement after talks with the French finance and economy ministers and central bankers that the *"issue of how to strengthen investment in Europe was a focal point for the joint talks against the background of the recently announced Juncker investment plan"*. A joint statement by the governments noted that the euro area recovery is *"muted"* and requires action. Reuters also reported that Germany and France had stressed the need to agree on the first step of a financial transaction tax before the end of this year. French economy minister Emmanuel Macron declared on Tuesday that Germany and France would present joint investment projects for the European Union summit in mid-December, and would also work on specific joint energy projects. French Finance Minister Michel Sapin said that France will do what is necessary to stick to European Union rules, but growth had to be boosted. Sapin also stressed that EU investment plans need a strong push in

3 December 2014

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With thanks to Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

Recent Research

UK — PMI and BoE Data

1 December 2014

Today's data highlight the extent to which the current UK economic recovery differs greatly from the UK's pre-crisis scenario of credit-driven and housing-driven growth. Manufacturing is stronger, housing is cooling, corporate liquidity continues to improve rapidly and banks' writeoffs are well down from a year ago. All this suggests that the UK remains set for solid and sustainable growth.

Michael Saunders

Global Economic Outlook and Strategy — Prospects for Economies and Financial Markets in 2015 and Beyond

1 December 2014

In this "Prospects" edition, Citi's research team presents updated forecasts for economies, interest rates, FX rates, commodity prices and sovereign ratings around the world for

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2015. Comment: nothing new in this statement following a regular meeting between Germany and France, reaffirming that supporting euro area growth is essential through appropriate fiscal and structural policies to generate the necessary rebound in economic confidence.

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Bundesbank's Weidmann: oil-price drop amounts to mini-stimulus

programme. Bloomberg reports that Bundesbank President Weidmann said that the fall in the oil price acts like a mini stimulus programme. Nevertheless, he said the Bundesbank will have to revise down its growth forecasts, and that geopolitical risks weigh on the world economy, even though he does not see a risk of recession for Europe. Weidmann also said that he does not see the risk of competitive devaluations and that the French and German ministers and central bankers, meeting yesterday, did not discuss the euro exchange rate. Weidmann once again reiterated that monetary policy cannot fix structural issues in the euro area.

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German Economy Minister: Eurozone does not need short-term stimulus.

Bloomberg reports that the German Economy Minister and Deputy Chancellor Sigmar Gabriel said that the Eurozone does not need a short-term stimulus programme and should focus on projects that boost competitiveness. German Finance Minister Schäuble added that the EU should focus on strategic investments and that the German and French ministers yesterday discussed investment. Gabriel pointed to electric cars as one area where EU investment would be desirable.

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France: French government would suffer extraordinary defeat if elections were held today. A CSA poll for conservative daily *Le Figaro* indicates that the UMP party led by former President Nicolas Sarkozy and its centre-right ally UDI would obtain between 485 and 505 seats in the 577-seat lower house of parliament if elections were to take place today. The current government majority of the Socialist Party, the Greens and the Left Front would get between 56 to 66 seats and the National Front between 14 and 24 seats. The CSA poll was based on voting intentions of 24% for the UMP, 23% for the National Front, 18% for the Socialists, 12% for the centrists, 8% for the Left Front and 7% for the Greens.

Comment: the two-round majority system favours the mainstream parties, keeping the potential number of seats for the National Front at very low levels. But the extent of the losses that the current majority would endure illustrates the difficulties of the current government unless more reforms are delivered shortly, in our view. This would amount to a record level of seats and illustrates the disarray of the majority with two-and-a-half years before the next elections in the spring of 2017.

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Italy: new electoral law could enter into force from 2016, PM Renzi says, however noting that the approval of the electoral reform by Parliament should be completed as soon as possible, daily *La Repubblica* reports. Mr Renzi noted that the new electoral law would be used only in 2018, implying that the government has no intention of calling early elections. The PM added that “*delays on reforms [that] Italy needs are incomprehensible*”.

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Spain: Services PMI falls sharply in November to 52.7 – Newswires report that the Markit services PMI fell to 52.7 in November from 55.9 in October, below market expectations (55.2), and lowest level since Nov 2011. The services PMI stands 0.3sd above its long-term average. In addition, after a slight increase in the previous month, companies reportedly left their staffing levels broadly unchanged in November, Markit reports. The composite PMI fell to 53.8 in

2015 and beyond. Overview essays discuss the drift into secular stagnation, whether globalization is stalling, political issues for 2015, emerging market strains, advanced economy “low-flation” and long-run projections for the size of major economies. We are cutting 0.1 percent off our global growth forecast for 2015 and 0.2 percent off for 2016, and expect only a modest pick up in global growth in 2015, led by advanced economies. Major monetary policy divergence is likely, with QE by the ECB and BoJ, widespread nearterm monetary easing across emerging markets, but (in late-2015) tightening by the Fed and BoE. We forecast further major USD appreciation, breaching €1.10/\$ and ¥125/\$ in 2015, with levels of €1.00/\$ and ¥135/\$ likely over the next 2-3 years.

Willem Buiter | Guillermo Mondino | Michael Saunders | William Lee | Kiichi Murashima

Euro Economics Weekly — ECB QE: Stacking Up The Evidence

28 November 2014

Staff forecasts will be a key input on Dec 4 — Numbers will be revised down, in our view and the Governing Council (GC) will likely highlight some downside risks. Ambitious balance sheet objectives require government bonds — We expect that the ECB will need to purchase €25bn of other assets per quarter over a two-year period to have a chance of hitting its €3tn balance sheet target. Probable language change to increase QE likelihood — we look for a more dovish statement, likely including references to the “composition” of the balance sheet and the “pace” of expansion. QE is coming, probably in Q1-15, most likely on Jan 22

Guillaume Menuet | Ebrahim Rahbari | Michael Saunders | Antonio Montilla | Ann O’Kelly

Denmark — Surprisingly Strong GDP Growth in 3Q

28 November 2014

The Danish economy expanded by a stronger-than-expected 0.5% QQ in 3Q after a meagre 0.1% QQ gain in the previous quarter. The Danish economy has now expanded for five consecutive quarters and this marks the longest

November (vs. 55.5 in October), standing 0.5sd above its long-term average.

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Greek PM calls on population to ignore Syriza and promised no new budget cuts. Bloomberg reports that Greek PM Samaras said in a speech in Athens yesterday that he has told Greece's official creditors that he will not accept their demands for more austerity because the country has proved it can meet its budget goals, noting that *"certain terms have been set that include increasing taxes and reducing incomes, and those terms we have rejected."* Samaras said that the troika has requested around €2.5bn in additional budget cuts, adding that *"the same thing happened in 2013, we were proven right; the same thing happened in 2014, we were proven right...our budget will bring results that meet the fiscal targets, or even do better."* The article says that an unnamed official directly involved in the negotiations said that another round of discussions may be needed before the troika chiefs return to Athens to complete the bailout review and that those discussions were ongoing. However, the PM also said that Greece will take measures if budget forecasts prove wrong. He called on Greek lawmakers to resist Syriza *"blackmail"* and said that he expected the current parliament will elect a new president (and thereby avoid early elections in the spring of 2015), adding that it was the *"critics"* that are forcing Greece towards a new memorandum. Samaras said that Greece now needs growth for the next phase of reform and that a *"gradual reduction"* of taxes is now his priority. He promised a constitutional reform, to be unveiled in days and that government bond yields will fall once new president is elected, while an early election would increase the risk of derailing recovery.

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Latest Issues of Sovereign Debt Update

ECB ABS Purchases Started Slowly

2 December 2014

ECB's ABS purchases start slowly but covered bonds purchases ramped up. Italy's PM Renzi calls for more flexibility on EU fiscal rules. Italy's 3Q GDP growth confirmed at -0.1% QQ. Spain: Registered unemployment fell more than expected in November, while car sales rose. Greek government and EU see progress in bailout review talks. Dijsselbloem says Eurogroup to discuss possible follow-up Greek loan on Dec 8. Citi's "Prospects for Economies and Financial Markets in 2015 and Beyond" is out.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Antonio Montilla](#)

ECB's Lautenschläger Currently Opposes Government Bond Purchases by ECB

1 December 2014

Lautenschläger against govt bond purchases by ECB. Dijsselbloem says central banks reaching end of the road. EIB ready to provide financing for EU investment projects before mid-2015. Germany's BaFin to tighten capital requirements. Sarkozy wins UMP presidency. Hollande to chair strategic council of public expenditure. Italy's QQ GDP growth to remain flat in 4Q, says ISTAT. EC warns Spain and Portugal over non-compliance with EDP. Greece weighing IMF role in new credit line.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Antonio Montilla](#)

EC to Deliver 2015 Budget Assessments

28 November 2014

EC to deliver 2015 Budget assessments - France, Italy, Belgium under spotlight. Draghi on need for risk sharing or mutualisation. ECB's Financial Stability Review says EA systemic risk lowest since 2007. Plan from French and German

stretch with positive growth since 2006. It also leaves GDP at the highest level since early-2012. Nevertheless, with rising geopolitical unrest and weaker momentum for the majority of Denmark's key trading partners, the near-term outlook does not look too bright. This is also confirmed by leading indicators, which point to a slowdown in the final quarter of the year. With weak private consumption and a struggling export sector, GDP growth could easily turn negative in 4Q. Further out, we continue to expect the Danish economy to gain further, albeit only modest, momentum. Key drivers will likely be stronger private spending growth, in step with rising employment and positive real wage growth.

[Tina Mortensen](#)

UK Economics Weekly — Low Rates and Low Oil to Keep Economy Buoyant

28 November 2014

We are pushing back our forecast for the start of MPC hiking from Q2-2015 to Q4-15. The key factor behind this change is the likelihood that the plunge in oil prices – plus retail discounting, and general weakness in food and import costs – will cut CPI inflation to 0.8%-0.9% YY in the December data – the lowest since 2000-02. Even if commodity prices now stabilise, CPI inflation is likely to stay around 1% YY until roughly Sep-2015. We continue to expect that GDP growth will stay around 3% YY in coming quarters, fuelled by strong growth in household real incomes, consumer spending and business investment. But we believe that the MPC are highly unlikely to hike rates while inflation is around 1% YY, unless other data make a really overwhelming case for urgent action (which seems unlikely).

[Michael Saunders](#) | [Ann O'Kelly](#)

UK — Cameron Speech

28 November 2014

PM David Cameron laid out his aims for reforms to migration policy, a key issue in the UK debate over whether to stay in the EU or seek Brexit. The UK government has a choice between two main options: (1) seeking to restrict the

economists to counter EU stagnation. EA sentiment rises in Nov. Germany drops opposition to EU-Canada free trade deal. French jobless numbers rise. Italy: business confidence rises. Greek govt sees progress in troika talks.

[Ebrahim Rahbari](#) | [Guillaume Menuet](#) | [Antonio Montilla](#)

EC's Juncker Unveils EU Investment Plan

27 November 2014

Details of EC's European Fund for Strategic Investments (EFSI). ECB: Constancio says ECB to review policy decisions in 1Q15, Jazbec says too much pressure put on credit revival. Merkel supports EFSI, Italian FinMin says EFSI decisive. Italy's Confindustria warns that Italy's 4Q GDP could be flat, consumer confidence falls. Spain's 3Q GDP growth confirmed at 0.5% QQ, recovery continues in 4Q says BoS. New poll shows rising support for Spain's Podemos party. Greece: no agreement with Troika.

[Antonio Montilla](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#)

ECB's Linde: December Data Key for Further Stimulus

26 November 2014

ECB's Linde stresses importance of December data. OECD calls for ECB stimulus to counter deflation risk. Merkel warns of recession threat in Europe. France: Macron on budget reduction strategy, Sapin says no hike in minimum wage. French household confidence rises. Italy's Lower House adopts the Jobs Act. Spain: Catalan Premier Mas proposes early regional election as referendum. Spain's state budget deficit narrows. Portugal: budget deficit improves. OECD raises forecast for Greek growth.

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Macroeconomic Forecasts

Global Economic Outlook and Strategy — Prospects for Economies and Financial Markets in 2015 and Beyond

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[Willem Buiter](#)

Emerging Markets Macro and Strategy Outlook — Prospects For 2015 And Beyond

1 December 2014

EM's prospects in 2015 will be governed by familiar themes: i) China's slowdown and its consequences; ii) the impact of falling commodity prices; and iii) the prospect of US monetary tightening. EM will face a challenging, though not

free movement of labour from existing EU countries, an aim that is incompatible with EU membership; (2) seeking to restrict benefit eligibility for migrants, which is feasible within the EU. Today's speech makes it very clear that the government is seeking the latter option, ie to limit benefits for migrants. By setting largely achievable aims, we believe this speech makes it clear that Cameron's aim is to keep the UK in the EU.

[Michael Saunders](#)

Norway — RNR Points to Further Growth Slowdown

28 November 2014

Norges Bank's Regional Network Report (RNR, which resembles the Fed's Beige Book) showed a slight deterioration in output in the Norwegian economy over the past quarter (0.7 vs. 0.79 in Sep), well below expectations back in Sep (of 0.95). At the same time, the expectation indicator was revised a tad lower, and with a value of 0.66, the lowest since Nov-09, continues to point to below-trend mainland GDP growth of around 0.3%-0.4% QQ over the next two quarters. This is a tad below NB's 4Q forecast of 0.5% QQ growth. Overall, the RNR was slightly on the weak side compared to NB's expectations, and likely implies that the Bank will lower its 2015 mainland growth forecast a tad in the upcoming Monetary Policy Report (out on 11 Dec). Meanwhile, today's report does not, in isolation, support any significant revisions to the conditional interest rate path, in our view.

[Tina Mortensen](#)

Sweden — Moderate GDP Growth in 3Q

28 November 2014

In line with expectations, economic activity moderated in the third quarter; GDP growth slowed from a downwardly revised 0.5% QQ gain in 2Q (2.4% YY) to 0.3% Q/ (2.1% YY). The main driver behind the slowdown was a large negative drag from net foreign trade (of 1.3%), reflecting very strong import growth. Meanwhile, private consumption and investment activity rose solidly, supporting our base case of a domestically-led recovery in Sweden.

insurmountable, year. After all, returns from (and flows into) EM were positive in 2014 in spite of a wide set of challenges. Weaker commodity prices in EM the last few quarters have had a notable effect on macroeconomic performance across the group of EM commodity exporters; so it is now possible to argue that a principal dividing line in EM is between manufacturing-based economies and commodity-based ones. On balance we expect EM spreads to widen by 15bp next year but with significant volatility, and with particular difficulty for quasi-sovereigns. In local markets, our themes are broadly negative on EMFX and more constructive on duration.

[Guillermo Mondino](#)

Foreign Exchange Forecasts — EUR/USD Parity Breach – November 2014

21 November 2014

The multi-year USD rally looks set to have legs as divergence in economic performance and monetary policies continues. We see 10-20% more USD upside vs. G10 currencies over the next couple of years. EUR/USD should find support in the low 1.20s short term but cut through, like a hot knife in butter, medium to long term. We expect parity to be approached and maybe breached over two years. BoJ QE acceleration announced on 31 October surprised the market and pushed USD/JPY sharply higher. We may get near term consolidation sometime given how overbought the USD is. But portfolio rebalancing and ongoing money base expansion should push USD/JPY towards 125-135 longer term. EM currencies are likely more protected by carry and lack of local quantitative easing. We expect USD gains of 5-6% vs. EM over 6-12m.

[Jeremy Hale](#)

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The stronger-than-expected rebound in retail sales in October adds further support to such a scenario. Although today's GDP report, on balance, was marginally weaker than expected, the implications for monetary policy should be very limited; the Riksbank primary focus is currently on inflation and inflation expectations.

[Tina Mortensen](#)

Euro Area — ECB's Constancio on QE and EU's Juncker on Investment Plan

26 November 2014

ECB to review effectiveness of policy decisions in Q1 15 — We expect the GC's statement on Dec 4 to convey a more dovish stance than on Nov 6. Arguments in favour of QE — Mr. Constancio listed five main arguments to justify using non-standard measures. Debunking the QE ineffectiveness myth — why QE would still be effective despite already low sovereign yields securities. European Fund for Strategic Investment (EFSI) — 15x leveraged, worth 2% of EU GDP over the next three years, split between long-term projects (€240bn) and SMEs & mid-caps (€75bn).

[Guillaume Menuet](#)

UK — GDP Details

26 November 2014

Real consumer spending rose by 0.8% QQ, the strongest quarter for four years. Overall investment spending grew 1.0% QQ in Q3, and this is the eighth consecutive quarter in which the QQ gain in investment has exceeded the gain in consumer spending, the longest such run since the mid-1960s. But, within the overall investment figures, business investment fell 0.7% QQ after strong gains in prior four quarters. Profits remain buoyant, rising 3.6% QQ and 9.2% YoY in Q3, but the share of wages in GDP (ie compensation of employees divided by nominal GDP) fell to 56.9% in Q3 from 58.6% a year earlier, and this ratio is now the lowest since Q1-98. While the number of people in work is at a record high, the share of GDP going to wages and salaries is close to a record low.

[Michael Saunders](#)

Scandi Economics Update — Sweden Democrats to Vote for Alliance Budget

3 December 2014

Sweden — Yesterday late afternoon, Sweden Democrats announced its intentions of voting for the Alliance's budget. The government yesterday invited the Alliance parties to emergency late-night talks, but these broke down and the centre-right parties vowed to vote for their own budget proposition. In turn, PM Löfven concluded that the budget issue will be decided in Parliament today and repeated that he would not remain PM and implement the Alliance's budget. Parliament is scheduled to debate the 2015 budget proposal from 8.00 UK time, with a vote scheduled for 15.00 UK time.

Sweden — We expect a slight setback for service PMI in November (Citi: 57.4, prior: 57.7). Data out at 7.30 UK time.

Norway — One of Norway's three main oil worker unions threatened labour disruptions unless the government does something to prevent job losses in the country.

Denmark — DNB intervened in November, a unilateral interest rate cut has moved closer.

[Tina Mortensen](#)

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Appendix A-1

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