

Monthly Executive Briefing

Moderate recovery in China

In China, economic data have shown signs of a moderate recovery. While Q1 GDP beat expectations with an increase of 6.4% y/y (consensus 6.3%), we saw PMI manufacturing fall back slightly again in April, which could be the same for other indicators as well. It is not unusual that Chinese data are volatile around the Chinese New Year so the decline in April was not a big surprise to us. **We still expect a recovery in China, but the numbers support the case that the recovery will be moderate.** Investors' hope for further monetary easing is still alive and we see a 50-50 chance of a broad based cut in the Reserve Requirement Ratio.

In Europe, euro area growth in Q1 rose to 0.4% q/q from 0.2% q/q. While we do not have the subcomponents yet, earlier country figures point to a further pick-up in domestic demand. The unemployment rate fell to 7.7% in March from 7.8%, another cycle low. That said, PMIs for April did not bring the big rebound that markets were expecting and together with subdued Germany Ifo readings suggest that the **euro area economy is not out of the woods yet. The ECB was on the dovish side at its last meeting.** There was little new information in terms of policy signals, but it opened the door for further policy easing, in particular the tiering system – though recently we have not heard any public support on the idea from governing council members.

US GDP growth in Q1 was higher than expected but that was partly due to increasing inventories, which is likely to revert. Still, US economic data support our long-held view that it was much too soon to talk about an imminent recession in the US. **The US economy remains in good shape, in our view.**

US President Trump has said that Chinese President Xi Jinping will come to the White House soon. The message suggests we are moving closer to a deal and we expect it to become a reality at a Trump-Xi summit in late May or early June. We still think a trade deal would support the Chinese recovery and emerging markets hence also supporting the euro area. In equities, a trade deal is largely priced in. In FX markets, we would expect a trade deal to support commodity currencies.

We now also have to watch out for the US-Iran conflict. The Trump administration surprised markets by announcing it would not renew waivers on sanctions on Iranian oil exports, which led to a rally in oil prices. This effectively means that a range of countries that have been allowed to take up oil from Iran, despite the US withdrawing from the nuclear deal, will no longer be allowed to do so, starting from 2 May.

At the extraordinary EU summit on Brexit on 10 April, the EU leaders decided to grant the UK an extension of the Brexit deadline to 31 October and some EU leaders already appear open to the possibility of a further extension if needed. Near-term we have to look out for the local elections on 2 May and European elections on 23 May. Conservative backbenchers want to get rid of Theresa May but it is not as easy as it sounds. There are no signs of imminent breakthrough in cross-party talks. **We think it is likely Brexit will come down to the wire again in October with a high probability of a further extension.**

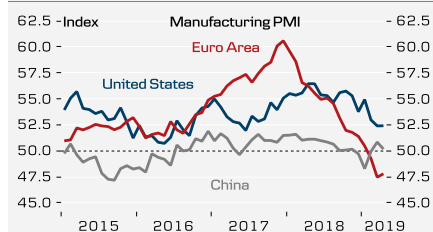
Key points

- Moderate recovery in China.
- In Europe, growth surprised to the upside in Q1 but the economy is not out of the woods yet.
- US economy remains in good shape.
- Trump to meet Xi Jinping 'soon'.
- Watch out for the US-Iran conflict.
- Brexit deadline postponed to October.

Other readings

- *Global Research: What a US-China trade deal will bring to markets, 8 April*
- *Brexit Monitor - "See you in October", 11 April*
- *ECB Review: Little news but tiering system still part of discussion, 10 April*
- *China: PMI lower but moderate recovery on track, 30 April*

Moderate recovery in China on track despite lower PMI

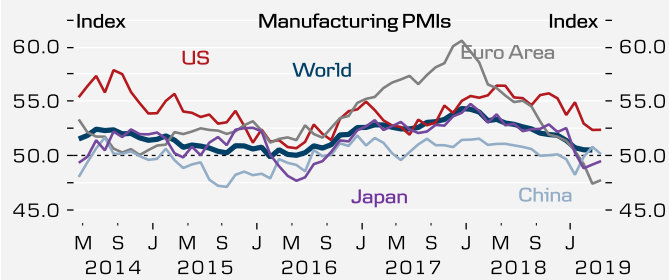


Source: Macrobond Financial, Danske Bank

Senior Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

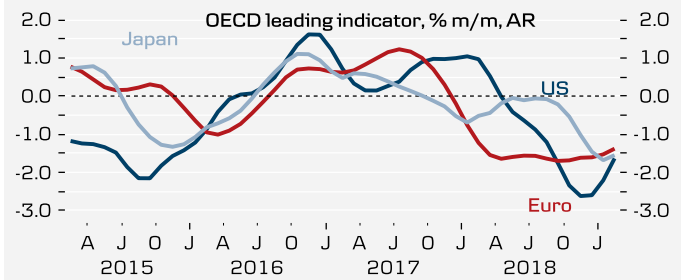
Macro charts overview

Global PMI manufacturing



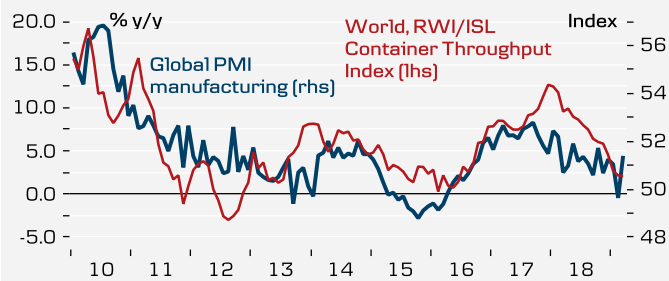
Source: IHS Markit, Macrobond Financial

OECD leading indicator



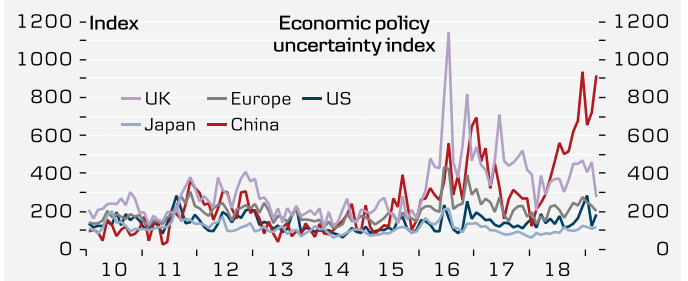
Source: OECD, Macrobond Financial

Global trade growth versus global PMI manufacturing



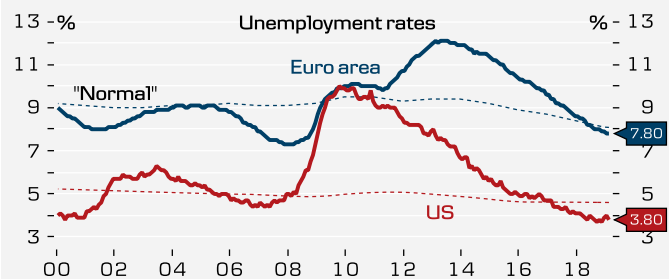
Source: IHS Markit, RWI/ISL, Macrobond Financial

Economic policy uncertainty index



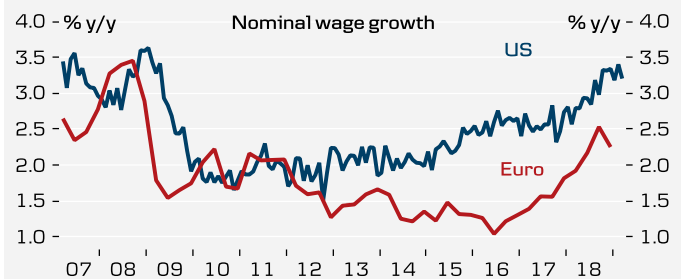
Source: Policy Uncertainty, Macrobond Financial

Unemployment rates



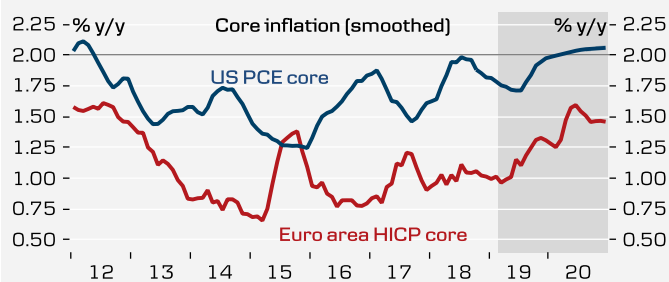
Source: BLS, Eurostat, Macrobond Financial

Wage growth



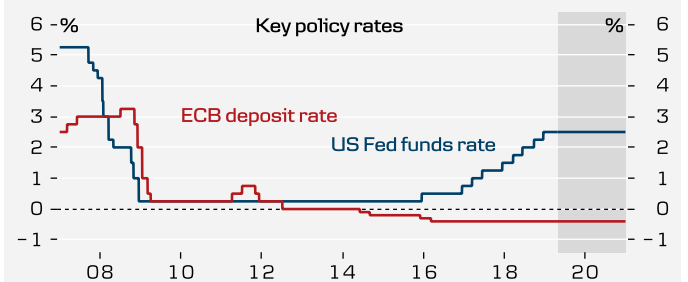
Source: BLS, ECB, Macrobond Financial

Inflation rates



Source: IHS Markit, Macrobond Financial

Policy rates



Source: ECB, Federal Reserve, Danske Bank forecasts

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