

Focus

In a normal market, the interest rate yield is lower in the short run than in the long run (“yield curve”). In today’s market, there are signs that the difference between short-term and long-term interest rates is decreasing and may even become negative. Does this indicate an economic downturn?

In mid-August the Federal Reserve indicated that more interest rate hikes are likely in the near future, pushing short-term interest rates upwards. Investors, however, are focused on long-term borrowing because of their preference for security, resulting in relatively low long-term interest rates. Due to this, the spread between two-year and ten-year American government bonds was only 19 basis points at the end of August, the lowest spread since 2007 (see graph).

There are different views on the impact of declining spreads. According to many economists, it indicates a possible economic downturn, especially if combined with one or more of the following indicators. First, there’s the high volume of corporate debt and the resulting lower creditworthiness of corporates. Second, if there is not much slack in labor markets, wages could increase rapidly, which in turn fuels inflation. Finally, government debt could increase, followed by an increase in credit spreads. This will not only reduce borrowing by corporates, consumers and the government, but will also make it more expensive to borrow, resulting in a slowdown in economic growth. Other economists do not believe the yield curve is an indicator of the economic outlook, because recessions have not always been preceded by negative spreads.

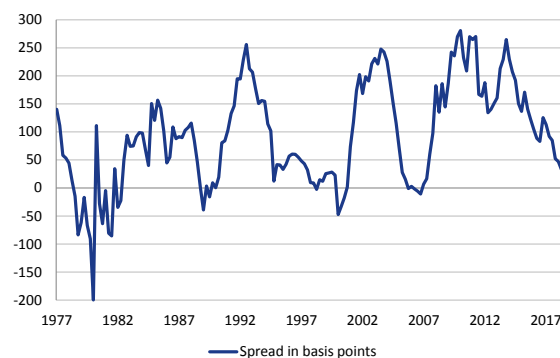
Opinions differ on whether the current term structure of interest rates signal a turning economic outlook. Even if one or more of the above indicators occur, the question remains whether the indicators actually have predicting value. Nevertheless, investors should keep a close watch on the interest rate curve for the time being.

Review

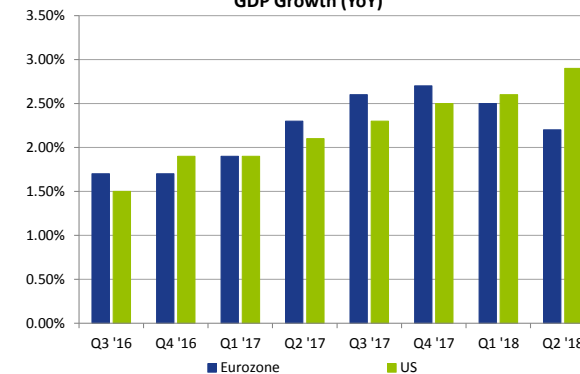
Moody’s has downgraded the credit rating for senior non-preferred debt from Deutsche Bank AG from Baa2 to Baa3. The downgrade is the result of a change in German law in July 2018. Due to the law change senior non-preferred debt is reclassified as “junior senior” debt and identified as a riskier investment.

The economies of the OECD countries have grown by 0.6% in the second quarter of 2018 on a quarter-on-quarter basis. On a year-on-year basis, there was a growth of 2.5%. Of the seven richest countries, the United States reported the highest growth at 2.8%.

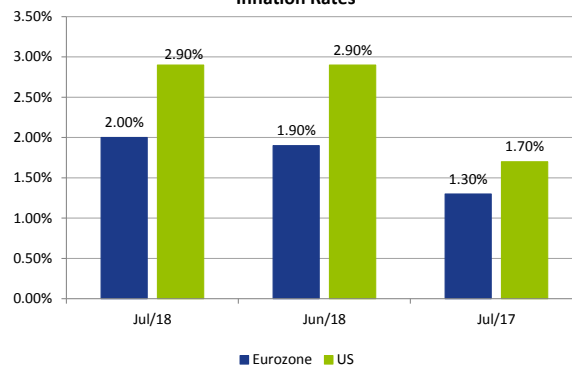
Spread 10Y & 2Y US government bonds



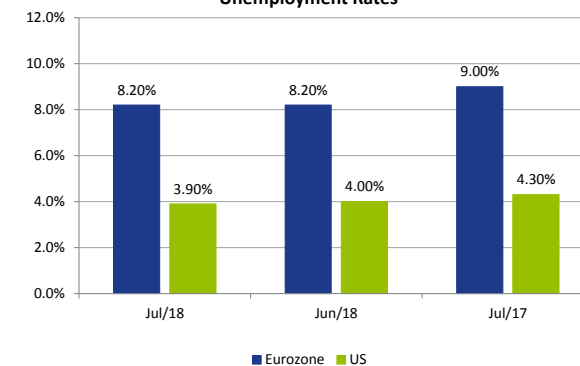
GDP Growth (YoY)



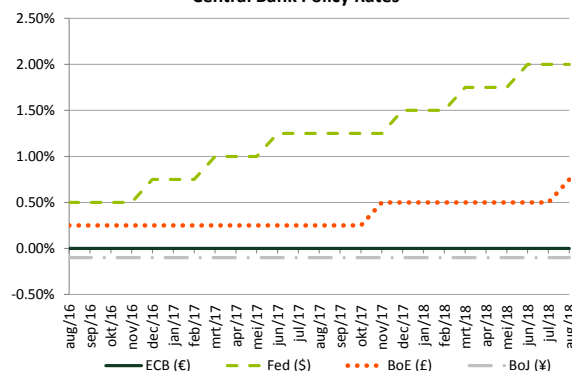
Inflation Rates



Unemployment Rates



Central Bank Policy Rates



Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Ba1	BBB-
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

Monthly Preview

Since most companies published their half-year figures in August, stock exchanges are expected to respond mainly to macroeconomic news in September 2018. However, a number of important decisions regarding international trade are also on the agenda.

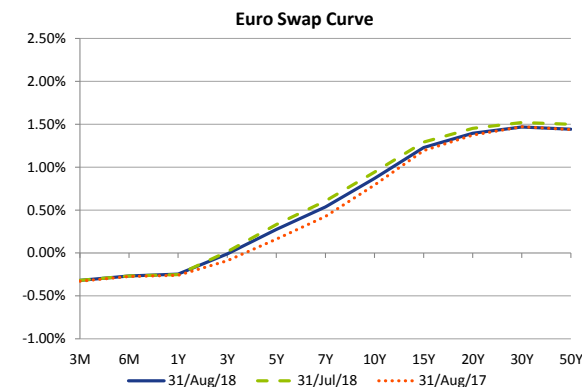
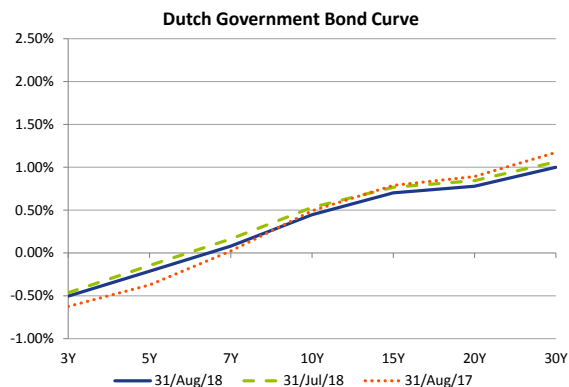
For example, there are concerns about the trade relations between the United States (US) and Canada. The US is negotiating with Canada at the beginning of September on a trade agreement that will replace the North American free trade agreement called NAFTA. NAFTA was initiated in 1994 and created a free trade zone between the US, Canada and Mexico. Trump has accused Canada of taking excessive advantage of NAFTA and wants to amend or terminate the treaty. Earlier, Trump announced that he already has negotiated a new agreement with Mexico.

The US trade war with China may also enter a new phase at the beginning of September. A consultation period expires after which a new package of import duties of USD 200 billion on Chinese products might be put into effect. China is expected to counter these new import duties by coming up with a similar package of measures.

Furthermore, the economic crises in Turkey and Argentina are still a topic of conversation. Argentina is discussing the possibility to receive the promised emergency loan from the IMF at an earlier time, in order to stop the continuing decline of the Argentine peso. For the time being Turkey does not want any financial support from the IMF, but it was announced in early September that inflation in Turkey rose to 17.9% .

Timeline macroeconomic indicators:

- 13 September 2018: Interest rate decision BoE
- 13 September 2018: Interest rate decision ECB
- 13 September 2018: Inflation US
- 19 September 2018: Trade balance Japan
- 19 September 2018: Inflation UK
- 26 September 2018: Interest rate decision Fed



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	A+
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AA+
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	Baa3	BBB+
BNP Paribas	A	Aa3	A+
Barclays Bank	A	A2	A
Credit Suisse Int.	A	A1	A-

Currencies	31/Aug/18	31/Jul/18	31/Aug/17
EUR/USD	1.160	1.169	1.191
EUR/GBP	0.896	0.891	0.921
EUR/CHF	1.124	1.158	1.142
EUR/JPY	128.840	130.785	130.975
EUR/DKK	7.456	7.452	7.437
EUR/SEK	10.603	10.278	9.455
EUR/CAD	1.513	1.521	1.486
EUR/AUD	1.614	1.575	1.499
EUR/CNY	7.926	7.963	7.848

