Focus

Last week, it became known that economic growth in Italy has come to a standstill and unemployment rose above 10.0%. In addition, the budget plans of the Italian government were rejected by the European Commission (EC). It was for the first time in European history that budget plans of an European Union (EU) member state were rejected by the EC.

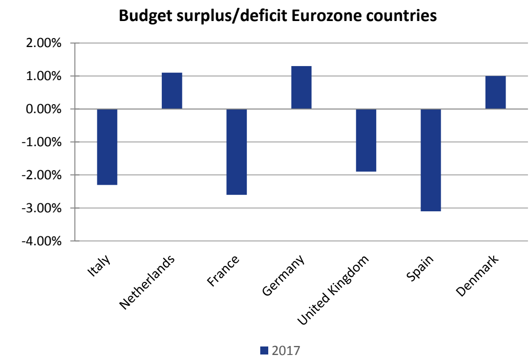
The budget deficit of the 2019 Italian government budget plans is 2.4%. This is well above the budget deficit demanded by the EU of no more than 0.8% and above the previously expected deficit of 1.6%. According to the Italian government, the proposed plans (such as lowering the retirement age and introducing a base income for the unemployed) are necessary to boost economic growth in Italy to 1.5%. Opponents fear however that the plans, which have a price tag of at least EUR 35 billion per year, will bring the country into a recession. Amongst others, the Italian central bank voiced their concerns about the plans.

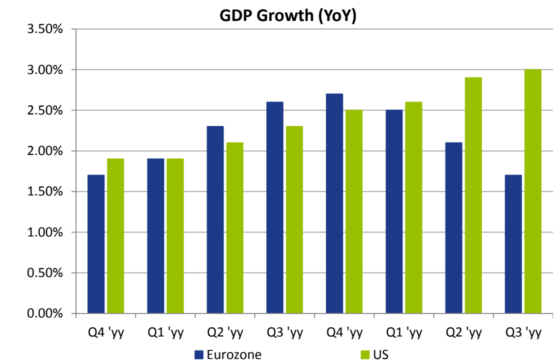
The high budget deficit also leads to concerns elsewhere in Europe. Italy already has a state debt of over 130% of GDP and the new budget plans will only increase this debt further. Italy, despite being the third economy in the eurozone, nearly owns the largest state debt in the EU, only second after Greece.

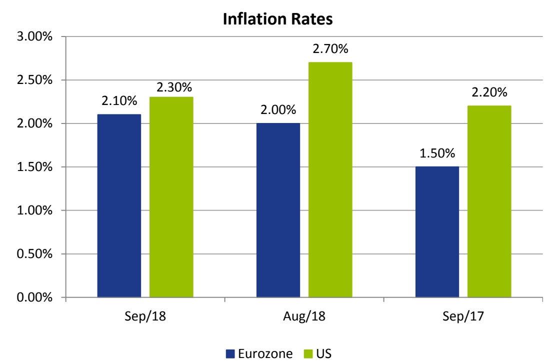
Financial markets also did not respond positively to the new plans. After publicizing the budget plans and the reaction of the EU, interest rates on Italian government bonds rose sharply. The spread between German and Italian government bonds increased in 2018 with 146 basis points to more than 300 basis points. This would mean that interest payments of the Italian government would increase even further after already spending EUR 65.5 billion last year, just as much as on education. The expectation of economists is that a potential recession in Italy can be a precursor to a new economic crisis in the eurozone.

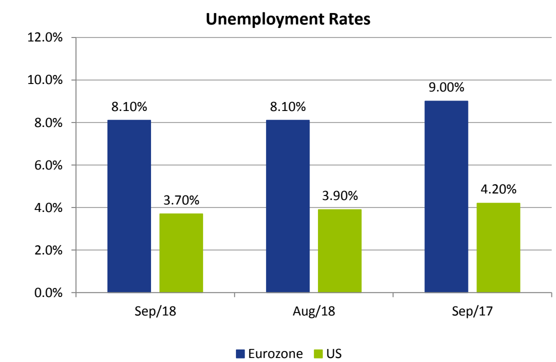
With the rejection of the budget, Italy now has two weeks to make new budget plans that are in line with earlier agreements. If Italy does not comply, the European Commission can decide to impose a penalty on Italy of up to EUR 3 billion.

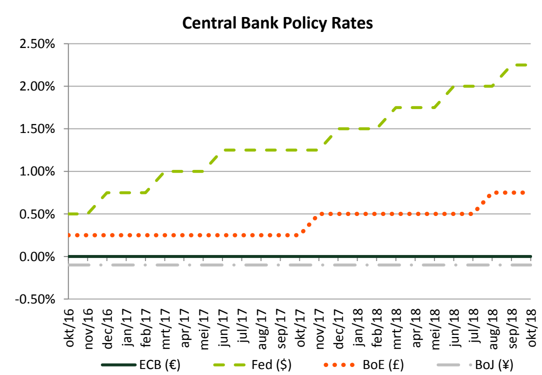
It will be interesting to see in the coming period if the EU can apply enough pressure to force Italy into a new budget. The Italian government parties seem determined to fulfill their election promises. The coming weeks will therefore be important not only for Italy, but for the entire eurozone.











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+
Italy	BBB*	Baa3	BBB

*Outlook lowered from 'Stable' to 'Negative'

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Review

The International Monetary Fund (IMF) reduced her forecast of the economic growth of the United States (US) and China. The IMF expects a growth of 2.5% for the US and 6.2% for China. Contrary to the IMF, the Organization for Economic Co-operation and Development expects stable growth figures for the US (2.9%) and China (6.7%).

In October 2018, the price of gold increased to its highest level in three months time with a value of USD 1240 per troy ounce. In addition, oil prices decreased in October. The WTI oil price decreased by 10.0%, while the price of Brent oil decreased by 9.0%.

Revised figures from European bureau of Statistics Eurostat indicated that nineteen eurozone countries have reduced their state debt in 2017. The state debt decreased to a mean of 86.8% of the Gross Domestic Product (GDP). The Netherlands has reduced its government debt below the European norm of 60.0%, having a debt of 57.0% of its GDP.

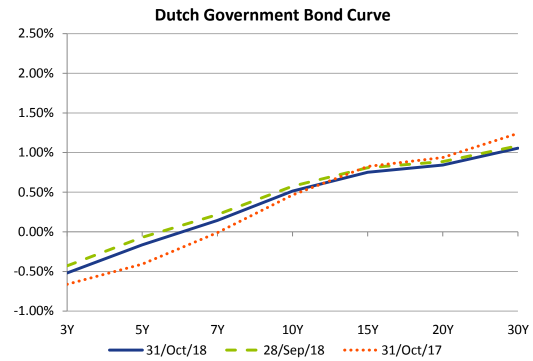
Monthly Preview

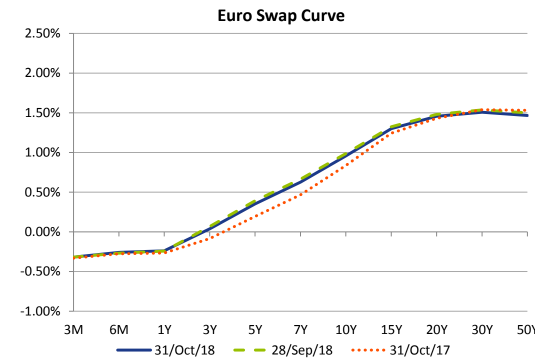
The market will be primarily focused on political developments. On the 28th of October Jair Bolsonaro was announced president of Brazil. Despite his far right-wing reputation, Bolsonaro is positively viewed by investors. Investors see the ex-military officer able to reform the Brazilian economy. This may lead to an increase in the Brazilian stock market and an appreciation of the Brazilian currency.

Private investors see the upcoming brexit as the main threat to their investments, followed by the continuing trade war between the US and China. The European economy could be influenced by these events, reducing the chance that the ECB will increase its interest rates. The trade war between the US and China may slow down the growth of the Chinese economy as well as influence the US growth figure. Presidents Trump and Xi will meet at the G20 summit November 30th to discuss their trade relations. If no agreement is reached in the G20 summit, this may result in introducing new taxes on products and services from China by the US.

Timeline macroeconomic indicators:

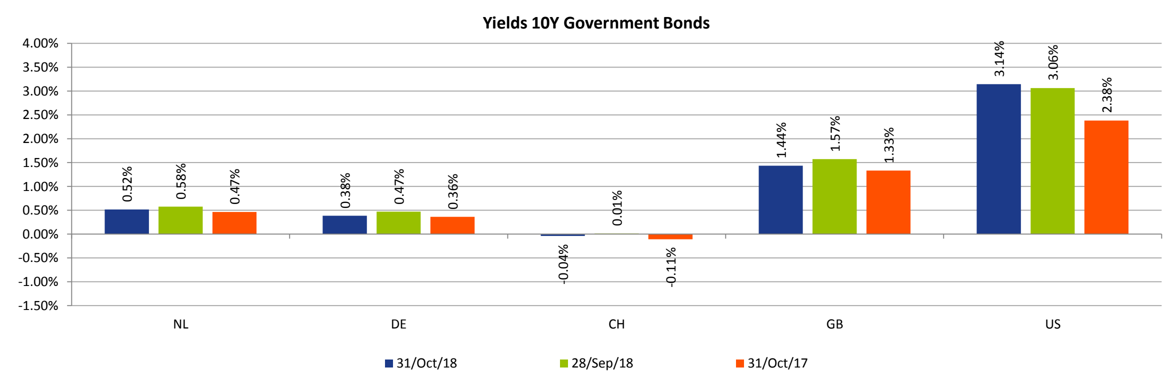
6 November 2018:	PMI European Union
8 November 2018	Interest rate decision Fed
9 November 2018:	GDP Q3 United Kingdom
9 November 2018:	PPI United States
14 November 2018:	GDP Q3 Japan and Germany
15 November 2018:	Retail sales United Kingdom
19 november 2018:	Trade Balance Japan





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/Oct/18	28/Sep/18	31/Oct/17
EUR/USD	1.131	1.160	1.165
EUR/GBP	0.886	0.890	0.877
EUR/CHF	1.141	1.140	1.162
EUR/JPY	127.765	131.930	132.340
EUR/DKK	7.461	7.457	7.441
EUR/SEK	10.369	10.316	9.756
EUR/CAD	1.488	1.498	1.501
EUR/AUD	1.599	1.607	1.521
EUR/CNY	7.891	7.971	7.728



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