## Focus

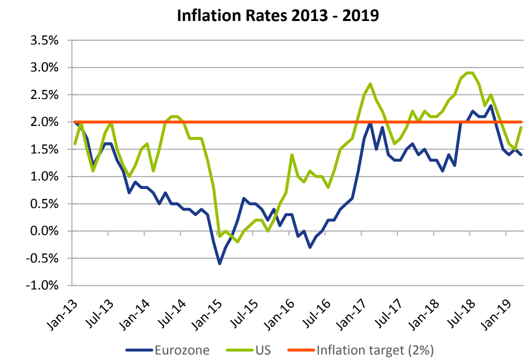
At the start of this year, inflation decreased in the eurozone, while inflation in the US is fluctuating in these first months of 2019. Theoretically, moderate inflation spurs the economy, causing primarily politicians to be in favour of inflation growth. However, the European Central Bank (ECB) is having difficulties in its attempts to raise the inflation to its target, as well as other central banks. Why is increasing inflation a difficult task for central banks?

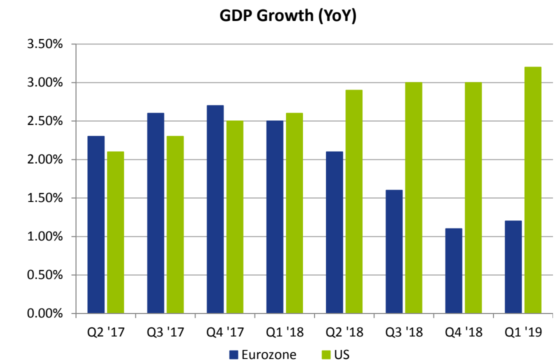
In theory, moderate inflation increases economic activity, as consumption is stimulated because of the depreciation of money. In contrast, very high inflation causes uncertainty, which can result in an economic crisis. Central banks therefore often have an inflation target. The ECB has a target below but close to 2.0%, while this target is 2.0% for the Fed. After a few years of very low inflation, both banks achieved their target inflation rates several times in recent years (see the graph). This was mainly caused due to strong economic growth and historical low unemployment. However, the ECB is not on schedule for its target; inflation for the eurozone was 1.4% on an annual basis in March 2019.

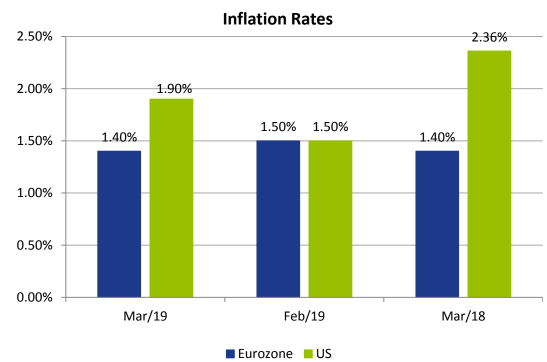
The main instrument central banks have at their disposal to steer inflation is their policy rate. This rate affects the interest rate for which businesses can borrow. A low interest rate should lead to an increase in loans, increasing the amount of money in an economy and thus increasing inflation. The Fed increased its policy rate multiple times the last few years to bring the interest rate to a neutral level and prevent companies from taking on excessive debt. In contrast, the ECB has pushed back intended interest rate hikes.

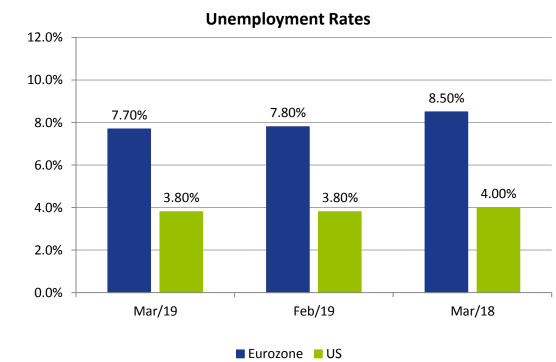
The policy rates of the ECB and the Fed are still historically low with 0.0% and 2.5%, despite very strong economic indicators up until recently. Central banks, especially the ECB, seem less able to increase inflation than expected. Possible reasons are amongst other things, that due to globalization, automation and weaker trade unions, workers have less bargaining power in demanding higher salaries.

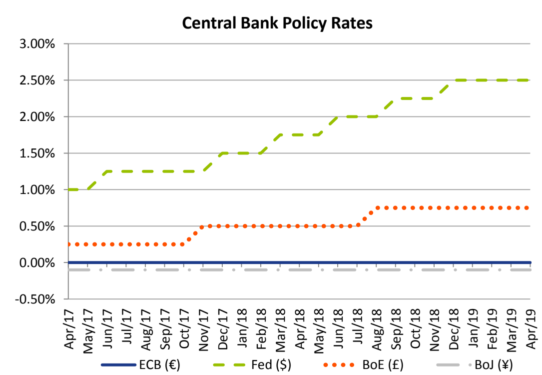
Whatever the reasons for lagging inflation may be, central banks will be cautious to use their policy rates to steer inflation closer to their targets. Especially, since other economic indicators show that worldwide economic growth is decreasing.




| 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- | Baa3 | BBB- |
| United States | AA+ | Aaa | AAA |
| Japan | A+ | A1 | A |
| China | A+ | A1 | A+ |
| Australia | AAA | Aaa | AAA |

## April in Review & Outlook of May

At its monetary policy meeting in April, the ECB decided to leave its benchmark policy rate unchanged at 0.0%. In addition, President Draghi reaffirmed in the subsequent press conference that the ECB will not change policy rates in 2019. Also, all maturing investments under the ECB's asset purchase program will be fully reinvested. According to Draghi, there are major concerns about global trade conflicts and their impact on the cooling economy within the EU.

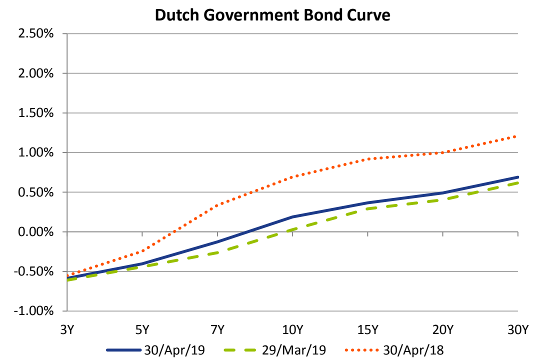
At the end of April, Fitch announced that it will maintain the credit rating of the Netherlands on AAA, with a stable outlook. According to the credit rating agency, the investment position of the Netherlands remains strong due to a large current account surplus. For 2019 and 2020, Fitch expects economic growth in the Netherlands to be 1.7%. Fitch does, however, point to declining consumer confidence and a potential no-deal breakdown as major risks for the Dutch economy.

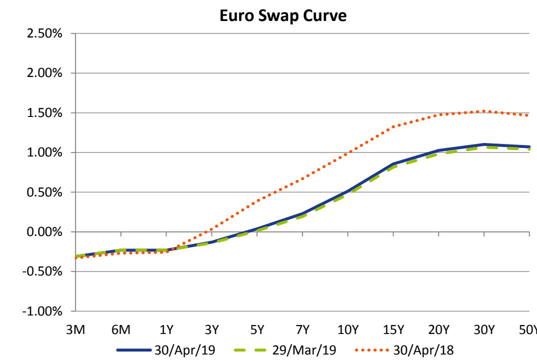
The US Department of Commerce announced that the US economic growth was an annualized 3.2% in Q1 of 2019. Causing the economic growth to be much higher than forecasted; analysts predicted an average annualized growth of 2.3%. The stronger growth was partly caused by lower American imports. The figures also showed that inventories of American companies increased substantially. According to analysts, this indicates that companies are still unsure about the outcome of the current trade war between the US and China.

Discussions about a new trade agreement will start again in early May when a large Chinese delegation will travel to Washington for a new round of negotiations. The US Secretary of Commerce said he expects economic growth in the US to continue above a level of 3.0% in the remainder of 2019, but analysts indicate that this will largely depend on the outcome of these negotiations between the two economic superpowers.

### Upcoming publications of macroeconomic indicators:

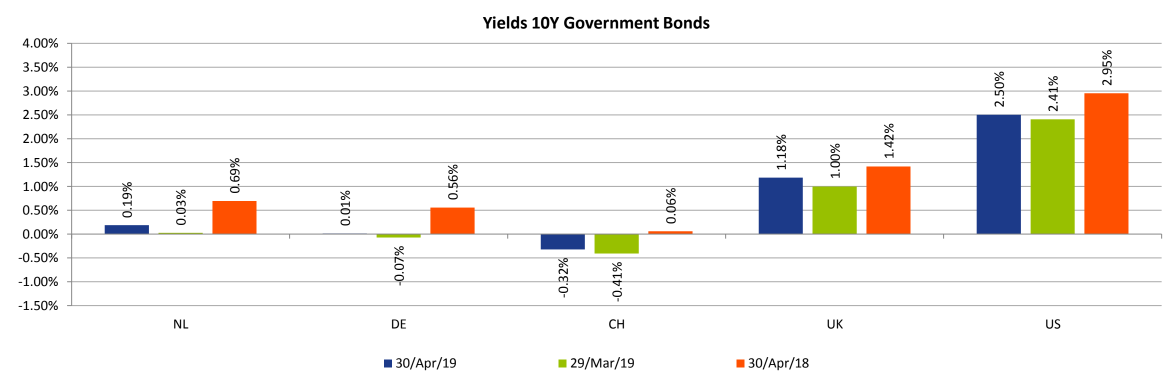
| | |
|---|---|
| 2 May 2019: | Interest rate decision Bank of England |
| 8 May 2019: | Arrival of Chinese trade delegation in US |
| 10 May 2019: | Inflation figures April 2019 US |
| 15 May 2019: | Economic growth Q1 2019 Germany |
| 22 May 2019: | Trade Balance April 2019 Japan |




| Bank Ratings | S&P | Moody's | Fitch |
|---|---|---|---|
| Rabobank | A+ | Aa3 | AA- |
| ING Bank | A+ | Aa3 | AA- |
| ABN AMRO | A | A1 | A+ |
| BNG Bank | AAA | Aaa | AAA |
| NWB Bank | AAA | Aaa | n.a. |
| Deutsche Bank | BBB+ | A3 | BBB+ |
| BNP Paribas | A+ | Aa3 | A+ |
| Barclays Bank | A | A2 | A+ |
| Credit Suisse Int. | A | A1 | A- |

| Currencies | 30/Apr/19 | 29/Mar/19 | 30/Apr/18 |
|---|---|---|---|
| EUR/USD | 1.122 | 1.122 | 1.208 |
| EUR/GBP | 0.860 | 0.861 | 0.878 |
| EUR/CHF | 1.143 | 1.116 | 1.197 |
| EUR/JPY | 125.020 | 124.350 | 132.055 |
| EUR/DKK | 7.466 | 7.465 | 7.450 |
| EUR/SEK | 10.641 | 10.424 | 10.567 |
| EUR/CAD | 1.501 | 1.497 | 1.551 |
| EUR/AUD | 1.591 | 1.581 | 1.604 |
| EUR/CNY | 7.553 | 7.530 | 7.651 |

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