Focus

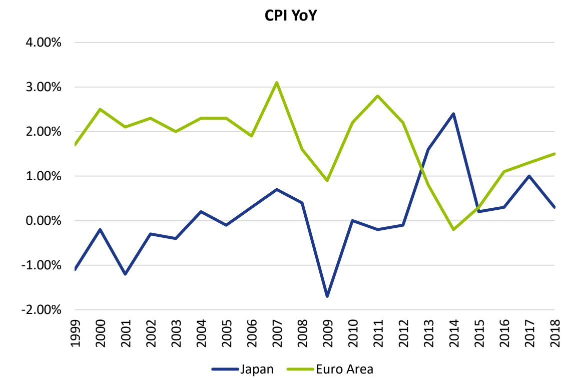
According to preliminary figures from Eurostat, inflation in the eurozone was 1.0% on a year-on-year basis in November 2019. In conjunction with low economic growth, negative interest rates and an aging population, a comparison is sometimes made with the ongoing situation in Japan. The Japanese have a low economic growth and low inflation for multiple decades. Why is this comparison made? And can we speak of a Japan-scenario in Europe?

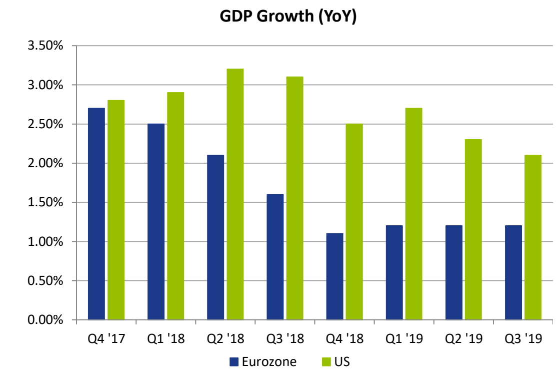
Since the start of the nineties, Japan experienced low economic growth and inflation. A major cause of the low economic growth are unfavourable demographic changes. The Japanese population is aging fast: more than 28% of the Japanese population is 65 years or older. This limits the supply of new labour forces and limits potential economic growth. These factors are a major cause of the low inflation in Japan, and sometimes even deflation. To spur inflation, the Bank of Japan (BoJ) has amongst others used Quantitative Easing (QE) and low policy rates for years. These measures have resulted in a massive increase of the Japanese government debt. In 2018, Japanese government debt is around 238% of the Gross Domestic Product.

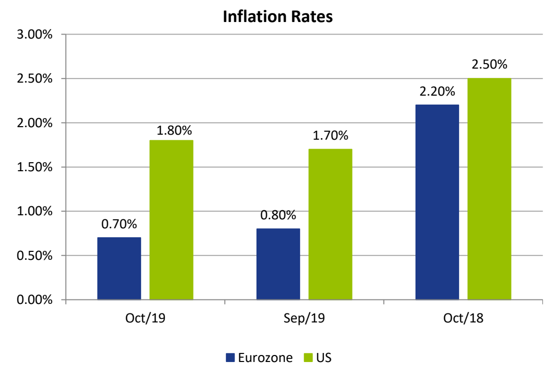
When looking at the eurozone, we see some interesting parallels: persistent, low inflation, an aging population, decreased productivity and decreasing yield of government bonds. The monetary policy of both the European Central Bank (ECB) and the BoJ have said to have similarities as well. Just like the BoJ, the ECB uses low interest rates to spur the economy. The ECB has also relaunched its QE-program in an effort to hit its policy goal of 2% inflation.

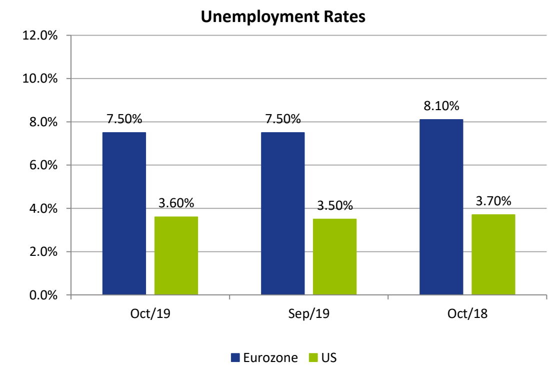
While there are major similarities between Japan and the eurozone in policies and demographics, there are also significant differences. In Japan, the economic conditions are similar over the country, while in Europe there is a divide between the north and the south. In addition, wages have not increased over the past decades in Japan, while in general in the eurozone wages still increase. Moreover, government debt versus Gross Domestic Product is decreasing in Europe.

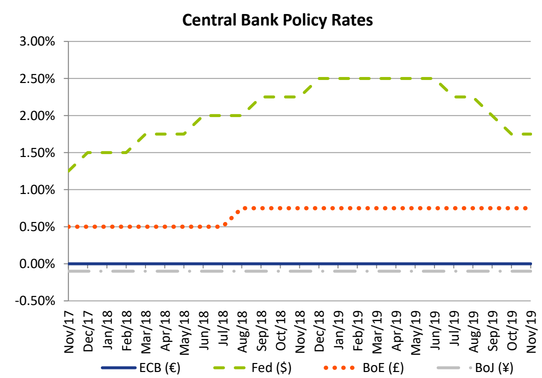
To conclude, despite similarities, there are also a lot of differences. To speak of the 'Japanification' of the eurozone is therefore a bit ambitious. However, this does not mean that the economic situation in Japan should be seen as irrelevant to Europe. Rather the opposite can be argued. It could provide us with some interesting key lessons











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

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

Review & Outlook

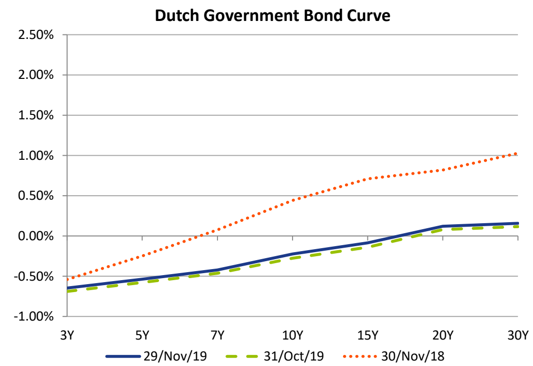
November has been turbulent with respect to the trade war between China and the United States (US). At the beginning of the month both countries seem to be on the same page, as they agreed to sign a “phase one” - trade deal at a summit in Chile. However, due to protests and riots in Chile, the summit was cancelled. On the other hand, Bloomberg reported that China was having doubts because of the impulsive character of President Trump. In addition, tensions increased after the adoption of a law by the US on 19 November 2019 that supports the human rights in Hong Kong. Despite these tensions, the Chinese ministry of Commerce announced on 26 November that both counties have reached a “consensus” and have resolved relevant issues for a “phase one”- trade deal.

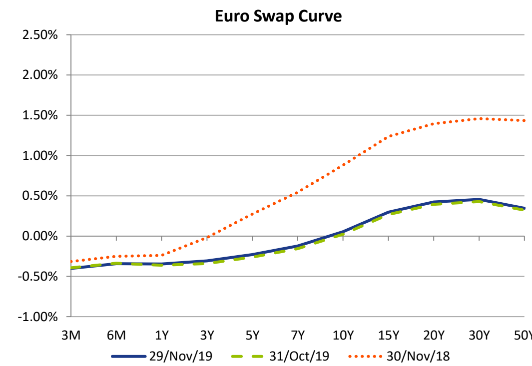
Last month, the European Investment Bank (EIB) announced that they will refrain from investing in projects related to fossil fuels, such as oil and gas, from the end of 2021. EIB will shift its focus to cleaner energy, efficiency and renewable energy technologies. According to forecasts, published in November by industry consultant IHS Markit, the global demand for oil is facing a turning-point and will decrease in the long run. Transition efforts, like these, could play a part in this decrease. Markit´s latest expectations show a gradually decrease in demand after 2035.

The Japanese economy is struggling in November. Reuters announced that Japanese exports in October experienced a decrease of 9.2% on a yearly basis, the largest drop in three years. Besides the trade conflict between Japan’s two most important trading partners, China and the US, the decreasing international demand and extreme weather also play a part in the decrease of export. The decrease in Japanese export is already persisting for 11 months in a row. Furthermore, according to figures from the Japanese government, the growth of the Japanese economy fell sharply in the third quarter of 2019. The growth amounted to 0.2% on annual basis, while economists anticipated a growth of 0.9%. The International Monetary Fund (IMF) has even lowered the GDP forecast of Japan for the third time this year. The growth forecast is reduced from 0.9% to 0.8%.

Upcoming publications of macroeconomic indicators

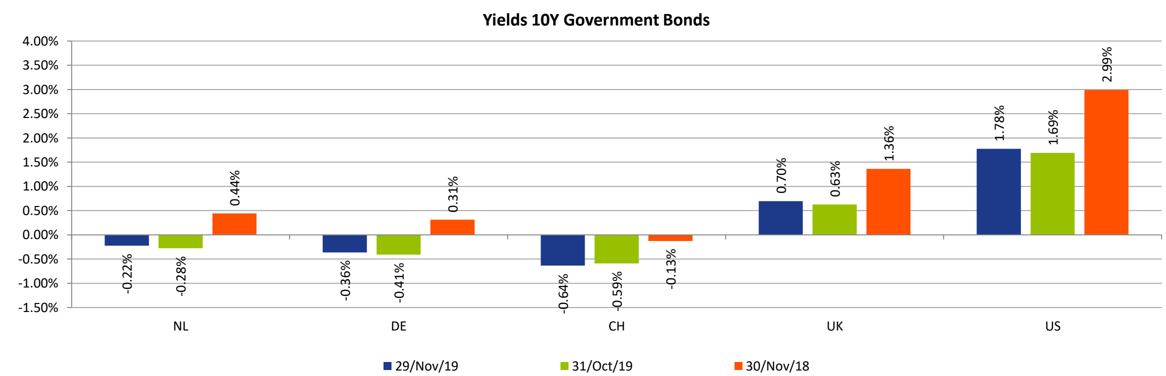
5 December 2019:	GDP growth European Union
11 December 2019:	Interest rate decision United States
12 December 2019:	Interest rate decision ECB
12 December 2019:	General election United Kingdom
19 December 2019:	Interest rate decision United Kingdom
19 December 2019:	GDP growth United Kingdom
19 December 2019:	GDP growth United States





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	AA-
Barclays Bank	A	A2	A+
Credit Suisse Int.	A+	A1	A-

Currencies	29/Nov/19	31/Oct/19	30/Nov/18
EUR/USD	1.102	1.115	1.132
EUR/GBP	0.852	0.862	0.887
EUR/CHF	1.102	1.100	1.131
EUR/JPY	120.615	120.490	128.440
EUR/DKK	7.472	7.471	7.463
EUR/SEK	10.555	10.764	10.303
EUR/CAD	1.463	1.468	1.504
EUR/AUD	1.629	1.618	1.549
EUR/CNY	7.749	7.850	7.878



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