

Corporate
& Investment Banking

BBVA Macro Strategy

European Periphery Macro Daily

29 November 2018
(08:45 CET)

Macro Update

Today

- **Spain flash inflation (November).** We recall that October headline inflation was 2.3% YoY and core inflation reached 1.0% YoY.
- **Germany flash inflation (November).** As a reference, October headline inflation printed 2.5% YoY and core inflation 1.7% YoY.
- **France second estimate of GDP (3Q18).** According to the first flash estimate, GDP growth reached 0.4% QoQ in 3Q18, slightly higher than the 0.2% QoQ registered in 2Q18 and 1Q18.
- **FOMC Meeting Minutes (November).** Yesterday's speech by Powell that reflected a somewhat dovish turn in the forward guidance has reduced the relevance of the minutes from the November meeting. In any case, the references to the growth and financial stability outlook will still be of some value, although both issues have been anticipated somewhat in Mr. Powell's latest speeches and the Financial Stability Report released yesterday where a general view was conveyed that the financial risk (excessive indebtedness of some sectors, resilience of the financial system, etc.) were deemed not to be excessive at this stage (see [here](#) for the view of our US BBVA Research colleagues).

Yesterday

- **Fed Chairman's comments.** In a speech before the Economic Club of New York, the Fed chairman, Jerome Powell, stated that: i) current rate levels are now just below the neutral range of estimates and as the economic situation no longer warrants a forced march to neutrality the Fed could adopt a less aggressive approach regarding rate hikes; ii) that the next steps to be decided will take into account how the economic data unfold; and iii) he still sounded upbeat about the growth outlook in the US and the overall financial health, but at the same time recalled the potential caveats in this outlook, which on other occasions he has linked to slowing growth in other economies, the fading out of fiscal stimuli in the US, as well as the fact that the economy still has to feel the full impact of the rate hikes implemented so far.

Our view: the strongly dovish reading the market took of this speech is mostly due to Powell's reference that the Fed's rates are close to (albeit below) the range considered as "neutral" (which is set between 2.5% - 3.5% according to the academic material tackled by the Fed), this represents a dovish turn from his previous opinion in October that rates were still far from neutral. This tweak opens the door for a more speculation on the rate path forecast by the Fed members at the 14 December FOMC meeting (when a 25bp rate hike is taken for granted) and more specifically whether the three 25bp additional hikes so far contemplated for 2019 will be maintained or moderated (implicit forward rates have in fact reduced

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this to no more than one 25bp rate hike throughout 2019). As we have stated in the past, our central scenario contemplates at least three 25bp hikes in 2019 on top of the one at the December meeting, but this forecast may now be increasingly subject to a downward correction.

- **US second estimate of 3Q18 GDP.** Confirming the advance estimate, US GDP growth increased 3.5% QoQ in annualised terms in 3Q18, below the 4.2% QoQ registered in 2Q18. Fixed investment decelerated sharply (to 1.4% QoQ ann. from 6.4% QoQ), as did non-residential investment (+2.5% QoQ from 8.7% QoQ ann.). Personal consumption expenditure moderated slightly (to 3.6% QoQ ann. from 3.8%) and government consumption remained practically unchanged (+2.6% QoQ from 2.5% QoQ). Exports also decelerated sharply (-4.4% QoQ ann. from 9.3% QoQ) whereas imports registered an increase (9.2% QoQ from -0.6% QoQ). The final result for the the third quarter will be released on 21 December.

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