

Investec Economics

The week ahead: Monday 17 April 2017

- It is set to be a quiet week for markets, with a number of western countries enjoying a public holiday for Easter Monday (the US remains open). In what is set to be a shortened week, tier 1 economic data is also in short supply. However, whilst the macro-economic calendar may be light, one thing that will be keeping markets on edge will be geopolitical developments, particularly with regards to North Korea and Syria. Certainly the former has ratcheted up tensions following President Trump's decision to send a carrier battle group to the Korean Peninsula. One event that could trigger further tensions is this weekend's anniversary of Kim Il Sung's birth, where there are some fears that North Korea could carry out a further missile or even a nuclear test to mark the occasion.
- China is the one country where economic data will be a focus. Monday will see the release of the usual monthly data (industrial production, retail sales), but also Q1 GDP figures. Monthly figures over Q1 have largely been solid, suggesting that growth in the first quarter is likely to remain robust. Our sense is that 2017 Chinese growth as a whole will see only a very marginal slowdown to 6.6% from 2016's 6.7%.
- Domestically the only official data set for publication is retail sales on Friday, where we expect headline sales to fall 0.5% m/m.
- Euro area surveys, most notably the PMIs, have pointed to firming economic activity in the first quarter of 2017. April's Euro area Composite PMI will be published next Friday, providing the first look at activity in Q2. We suspect that economic momentum has been maintained and we see the PMI holding steady at 56.4. Meanwhile, French election risks are likely to remain front and centre of investors' minds. Over the last two weeks, French bond spreads have widened (the 10yr OAT spread over bunds stands at 72bps) and CDS prices have risen amidst rising anxiety over the potential result. Whilst Emmanuel Macron and Marine Le Pen are still seen as the favourites to advance to the runoff vote on 7 May, the notable development in the polls has been the surge in support for the left-wing candidate Jean-Luc Mélenchon. In some polls Mr Mélenchon is only 5% behind the top two candidates. Whilst seemingly unlikely, a second round vote between Le Pen and Mélenchon would be a worry for markets. The first round vote is set to be held next Sunday 23 April.
- Stateside, the first indicators for Q2 will be of interest with both the Empire state and Philly Fed surveys due. The remaining main data points will focus on housing, with existing home sales, starts, permits and the NAHB index all published. Away from economic data and geopolitical developments, US equity markets will be driven by the US earnings season, with a number of major banks set to report. **RD**

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Weekly Key Indicators

Indicator			Comment
EU19 preliminary composite PMI (Mar) 09:00 Friday 21 April			
Composite	Forecast 56.4	Last 56.4	<ul style="list-style-type: none"> The Euro area Composite PMI firmed again in March, reaching 56.4, its highest level in 71 months. A faster pace of growth was seen across both the manufacturing and services sectors. Nationally the latest PMIs provide encouragement, with the Euro area's second largest economy, France, showing continued signs of a pickup following a subdued period in Q4. Meanwhile, activity in Germany has also strengthened with the PMI and other indicators pointing to buoyant growth in Q1. Output, new orders, employment and business optimism all rose to new multi-year highs in March. Certainly these details highlight the improving Eurozone outlook and point to a positive handoff to the start of Q2. However, one point we would highlight is the apparent divergence between survey and hard data, with the hard numbers failing to see the buoyancy of some the surveys. This is a phenomenon which has been seen across a number of countries, including the US and the Euro area. We continue to believe in a strengthening Euro area recovery, although we are reticent to forecast another rise in the PMI, given what this would imply for the pace of growth in the Euro area. We forecast the PMI remaining steady at 56.4 RD
Retail sales (Mar) 09:30 Friday 21 April			
Retail sales	Forecast -0.5% (3.3% yoy)	Last +1.4% (3.7% yoy)	<ul style="list-style-type: none"> According to the BRC retail sales monitor, total UK retail sales fell by 0.2% year on year and were 1.0% lower on a like for like basis in March. The timing of Easter is likely to have been a drag here, with Easter falling in April this year as opposed to March last year. The release of the BRC's March numbers completed the picture for Q1 which, Easter effects notwithstanding, provided a hint of a consumer spending squeeze now upon on us. Indeed over the period January to March, excluding food, Britain's high street saw the biggest drop in retail sales in nearly six years as non-food retail sales fell by 0.8% y/y. One question for next week is the extent to which the weak March sales picture evident in the BRC (values based) figures translate to a soft set of ONS (Office for National Statistics) (volumes) numbers. <ul style="list-style-type: none"> For one, rising inflation should help to lift the BRC values based numbers whilst it would not support the ONS sales volumes figures. Secondly, the ONS seasonally and calendar adjusts its numbers and this should, to the best of its ability, allow for the moving timing of Easter, removing some downside to the March ONS numbers. However this adjustment will not be perfect, adding extra uncertainty to the likely shape of the upcoming ONS release. In February, ONS retail sales (excluding fuel) were recorded up 1.3% on the month. Our expectation is that we will see some reversal of this gain with a 0.5% decline in March. That would take the year over year pace of growth down to 3.8% from 4.1%. VC
Retail sales - ex fuel	-0.5% (3.8% yoy)	+1.3% (4.1% yoy)	

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The Week Ahead

Date	Venue	BST	Indicator/event	For	Investec Forecast	Previous	
Mon 17	UK/EU		Public holiday: Easter Monday				
		CH	03:00	Fixed asset investment	Mar		+8.9% (ytd, yoy)
			03:00	◆ Industrial production	Mar		+6.0% (yoy)
			03:00	◆ Retail sales	Mar		+10.9% (yoy)
			03:00	◆ GDP	Q1		+1.7% (+6.8% yoy)
		US	13:30	Empire State manufacturing survey	Apr		+16.4
Tue 18	CH		Property prices	Mar		+11.8% yoy	
		US	13:30	Building permits	Mar		+1216k (saar) (r)
			13:30	Housing starts	Mar		+1288k (saar)
			14:15	◆ Industrial production	Mar		+0.1% (r)
			14:30	Chancellor Hammond answers questions in the Commons			
			21:00	Long-term investment flows (TIC data)	Feb		+\$6.324bn
Wed 19	EU19	10:00	◆ CPI (final)	Mar		+0.4% (1.5% yoy) (p)	
		10:00	- ex food, energy, alcohol & tobacco			+0.7% (yoy) (p)	
		19:00	Fed's Beige Book				
Thu 20	UK	11:30	◆ BoE's Carney speaks at IIF Washington				
		12:30	◆ BoE's Carney speaks at Bank of France Event, Washington				
	JA	00:50	Trade balance	Mar		+¥813.546bn (r)	
	EU19	15:00	Consumer confidence (prel.)	Apr		-5.0	
	GE	07:00	PPI	Mar		+0.2% (3.1% yoy)	
	US	13:30	Weekly jobless claims	Apr 15		-1k (234k)	
Fri 21	UK	09:30	◆ Retail sales	Mar	-0.5% (3.3% yoy)	+1.4% (3.7% yoy)	
		09:30	- ex petrol	Mar	-0.5% (3.8% yoy)	+1.3% (4.1% yoy)	
	JA	01:30	Manufacturing PMI (prel.)	Apr		52.4	
	EU19	09:00	◆ Composite PMI (prel.)	Apr	56.4	56.4	
		09:00	Manufacturing PMI (prel.)	Apr		56.2	
		09:00	Services PMI (prel.)	Apr		56.0	
	GE	08:30	Manufacturing PMI (prel.)	Apr		58.3	
		08:30	Services PMI (prel.)	Apr		55.6	
	FR	08:00	Manufacturing PMI (prel.)	Apr		53.3	
		08:00	Services PMI (prel.)	Apr		57.5	
	US	14:45	◆ Manufacturing PMI (prel.)	Apr		53.3	
		14:45	◆ Services PMI (prel.)	Apr		52.8	
		15:00	Existing home sales	Mar		+5.48m (saar)	
	IMF/WB		The IMF and World Bank hold their annual spring meetings (to April 23).				
	Sun 23	FR	◆ French Presidential election – 1 st round				

Further ahead

27 April	EU19	ECB announcement
28 April	US	US Continuing Resolution end date
3 May	US	FOMC announcement
4 May	UK	Local and mayoral elections
7 May	FR	2 nd round of French Presidential election

Key

◆ Key event indicator