EZ business activity slows; Lagarde: Trade war threatens global growth

TOP NEWS

Euro zone business growth halts as Germany goes into reverse
Euro zone business growth stalled this month, a survey showed, dragged down by shrinking activity in Germany, where a manufacturing recession deepened unexpectedly. IHS Markit's Euro zone Composite Flash PMI sank to 50.4 in September from 51.9 in August and was below all forecasts in a Reuters poll that had predicted a reading of 51.9. A flash services PMI for the bloc fell to 52.0 from 53.5, while a manufacturing index fell to 45.6 from 47.0. A services new business index dropped to 50.9 from 52.3 and a manufacturing new orders index fell to 43.1 from 45.9, a more than seven-year low. Meanwhile, Markit's flash composite PMI for Germany fell to 49.1 from 51.7 in the previous month. A sub-index measuring the manufacturing sector plunged to 41.4 - the lowest level in more than 10 years.

Fed's Bullard: U.S. policy now "considerably" looser, but markets may demand more
The Fed's policy shift since last year has made monetary policy "considerably more accommodative" than a year ago, but world markets are likely expecting more to come, St. Louis Fed's president James Bullard said. While the Fed has cut short-term interest rates a half a percentage point since July, its overall shift in tone and the removal of previously expected rate hikes have caused longer-term bond rates to fall by more than twice that amount, Bullard said. Still, he said, the Fed "may choose to provide additional accommodation going forward" as global trade and other risks threaten to cause the U.S. to slow more than expected this year and undercut the Fed's ability to achieve its 2% inflation target. Separately, New York Fed President John Williams defended the bank's handling of volatility in money markets last week, saying officials anticipated the liquidity crunch and were successful in easing the markets.

Incoming ECB President Lagarde: Trade tensions biggest threat to global economy
Threats to trade are the biggest hurdle for the global economy, but the U.S. economy remains in a good place, Christine Lagarde, incoming president of the ECB said. She said tariffs imposed by the U.S. and China were expected to shave 0.8% off global economic growth in 2020, weighing like a "big, dark cloud on the global economy." Lagarde expressed optimism about Europe's economic prospects in terms of increased supervision of financial institutions, better capitalization and lower financing costs. But she noted policymakers now had less space to make fiscal and monetary adjustments, adding economic risks would come from "somewhere where we don't anticipate them." Separately, a euro zone economic rebound is not in sight and imported weakness risks infecting the domestic eurozone economy, ECB President Mario Draghi said. He added services appeared to remain resilient for now but would not be indefinitely immune to troubles in export-focused sectors.

EXCLUSIVE-Italy to cut 2020 GDP growth target to around 0.6% -sources
Italy will cut its target for economic growth next year to around 0.6%, three sources close to the matter told Reuters, as the government prepares its 2020 budget to be presented to parliament later this month. The previous target, issued in April, envisaged growth of 0.8%. Growth this year is now seen at just 0.1%, compared with an April projection of 0.2%. Under an unchanged policy scenario, GDP next year would be around 0.4%, which will be bolstered slightly by growth enhancing measures in the budget, said two of the sources who asked not to be named. The budget deficit will be targeted at close to 2.2% of gross domestic product, two of the sources said, though they added that marginal last-minute changes were possible due to ongoing negotiations with the European Commission. The 2.2% target penciled in is more likely to be reduced than raised, they said. This year's deficit is currently officially targeted at 2.04%, but the sources said it would come in somewhat lower.
UK households’ money worries greatest in nearly six years - IHS Markit

British households are more worried about their financial prospects now than at any time since 2013, partly because of concerns about the economic and political outlook as the country prepares to leave the EU, a monthly survey showed. The IHS Markit Household Finance Index sank to a four-month low of 43.1 in September from August’s 43.6. Willingness to make major purchases such as cars or holiday bookings was the lowest since December 2013, and the assessment of their financial situation in 12 months was the most negative since November 2013. Despite their gloomier mood, households’ expectations of BoE policy were little changed. Some 23% think the BoE will cut interest rates from the current 0.75% during the next 12 months, unchanged from August. Almost 60% think it will increase rates, up from 58%.

GRAPHIC

‘Quitaly’? - How 'last year', say markets

The risk of the euro zone breaking up, which preyed on investors’ minds in 2018, has fallen to the lowest level in over a year, market gauges show, as Italy’s new government allays fears of “Quitaly”, the possibility of Rome exiting the single currency bloc.

Repo ructions: Then and now

Investors were jolted last week when rates in an obscure part of the U.S. lending market spiked, prompting fears of bigger problems for the financial market and broader economy.

CHART OF THE DAY

TREASURIES: Treasury yields dropped as risk appetite ebbed after softer-than-expected euro zone business activity data fueled recession fears in the region. Benchmark 10-year notes rose 11/32 yielding 1.71%. 30-year bonds were up 22/32 to yield 2.17%. 2-year notes gained 2/32, yielding 1.67%.
FOREX: The dollar edged higher against the euro after dismal European manufacturing and services data elevated concerns about the state of the euro zone economy, even as U.S. economic data came in mixed. U.S. employment in the services sector shrank for the first time in nine-and-a-half years in September, IHS Markit's PMI showed. At 50.9, the services sector PMI was below expectations of 51.3. The euro fell 0.22% to $1.0993. The British pound lost 0.35% to $1.2435. Against the Japanese yen, the dollar was down 0.10% at 107.43 yen. The dollar index gained 0.10% to 98.616.

CORPORATES: Corporate bond spreads were unchanged after weak economic data from the euro zone stoked global recession fears and forced investors to seek refuge in safe-haven bonds. The CDX-IG.32 index was unchanged at 60 bps.

STOCKS: Stocks barely budged, with gains in shares of Apple Inc offset by mixed economic data that added to caution over the prolonged U.S.-China trade war. Apple rose 0.66%. Micron Technology gained 0.80%. Boeing lost 0.59%. Juniper Networks rose 2.08%. The Dow rose 15.19 points, or 0.06%, to 26,950.26, the S&P 500 lost 0.28 points, or 0.01%, to 2,991.79 and the Nasdaq dropped 5.21 points, or 0.06%, to 8,112.46.

C&E: Oil ended higher after a volatile trading session as traders focused on when Saudi Arabia would be able to restore full output following the Sept. 14 attack on its facilities. U.S. crude rose 0.67% to $58.48 a barrel. Brent added 0.26% to $64.45 a barrel. Gold gained 0.44% to $1523.53 an ounce.

LATAM NEWS

Colombia's central bank holds interest rate, raises growth estimate
Colombia's central bank board unanimously held its benchmark interest rate steady at 4.25% and raised its economic growth prediction for the year, taking it closer to the government's target. The six policymakers present raised 2019 expansion expectations to 3.2% from 3%, moving their figure nearer to the government target of 3.6%. Analysts predict growth will reach 3.15% this year. The decision to keep borrowing costs steady was based on inflation falling toward the bank's long-term 3% goal, the board said in a statement.
Brazil's current account gap 1.84% of GDP, widest since March 2016
Brazil's current account deficit widened in August, central bank figures showed, by some measures to its widest in over two years thanks to increased net outflows from investment income and corporate profit repatriation. The broadest measure of the gap between what Brazil sells to the rest of the world and what it imports, including capital flows, reached $33.85 billion in the 12 months to August, the equivalent to 1.84% of GDP. In the month of August itself, Brazil's current account deficit was $4.27 billion, slightly wider than the $3.96 billion shortfall forecast in a Reuters poll of economists and more than double the $1.75 billion deficit in the same month last year.

LATAM MARKETS

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EYE ON ASIA

Indonesia sets plan to raise spending 8.5% to $180 bln in 2020
The Indonesian government plans to spend 8.5% more in 2020 than this year, following approval by a parliamentary committee of a budget a finance ministry official said. The budget was fractionally bigger than his original proposals but has the same fiscal deficit target of 1.76% of GDP. For 2019, a budget deficit of 1.93% of GDP is expected. The budget plan sees revenue at 2,233.2 trillion rupiah, up almost 10% from what the government expects to collect this year. The government will issue 389.3 trillion rupiah of bonds, not including buybacks and short-term notes for cash management, to fund the budget deficit next year.

POLL-Thai c.bank seen holding key rate amid soft growth, strong baht
Thailand is expected to leave its benchmark interest rate steady after last month's cut, a Reuters poll showed, despite slow growth, a strong baht, below-target inflation and policy easing moves by others central banks. In the poll, 13 of 20 economists predicted the Bank of Thailand's monetary policy committee will keep its one-day repurchase rate at 1.50%. The other seven forecast a 25 basis-point cut to the record low of 1.25%. Ten of 12 analysts who gave a longer-term view saw the rate falling to 1.25% by the end of this year.

ASIA ECON WATCH (For September 24)
Thailand Manufacturing Production (YY) for Aug: Expected -3.60%; Prior -3.23%
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