RBC Economics
Financial Markets Monthly

Overview .... page 1
Interest rate outlook .... page 5
Economic outlook .... page 6
Currency outlook .... page 7
Central bank watch .... page 8
2019 trends starting to fade? .... page 9

November 8, 2019

A gentle turning point?

As we head into the late stages of 2019, two of the key (and inter-connected) themes that have defined the year—trade tensions and monetary policy easing—appear to be heading for some sort of resolution. On trade, a US-China deal is far from a sure thing but there is growing optimism that a ‘phase one’ agreement will be reached before year end, canceling further tariff hikes and possibly even rolling back earlier increases. The prospect of a thaw in the trade war was enough to push the S&P 500 to fresh record-highs in early November (a better-than-feared earnings season also helped). Brexit, another key trade concern, remains unresolved—October’s deadline was extended by three months and the UK is heading for a general election in December—but with markets seeing lower odds of a damaging no-deal exit, Sterling is up 7% from its summer lows.

As for central banks, the Fed cut rates for a third consecutive meeting in October but signaled its mid-cycle adjustment is complete, barring an unexpected deterioration in the outlook. The ECB announced a number of stimulus measures in September but isn’t likely to add to that anytime soon, hoping fiscal policy will do more of the heavy lifting. And with less risk of a no-deal Brexit, we now think the BoE will keep rates on hold. There’s still the potential for easing in some smaller, open economies—we continue to pencil in rate cuts from the BoC and RBA early next year—but the momentum behind additional global easing is fading.

It’s still too early to close the books on 2019, or the trends that defined the year. Recent data hasn’t fully dispelled fears of a downturn, and breakdown in US-China trade talks resulting in further tariff hikes remains a risk—one that might have central banks contemplating further easing. But at this point we don’t expect this year’s lows in government bond yields to be re-tested, and look for yields to move higher in 2020.

Central bank near-term bias


↘ The Bank of Canada shifted to an easing bias in October, and even contemplated lowering rates. We continue to expect a cut early next year, though markets are less convinced amid tentative signs that global headwinds (key for the BoC) are beginning to fade.


↔ The Fed cut rates again in October but indicated its mid-cycle adjustment is likely over. We expect moderate growth, driven by the household sector, will keep the Fed on the sidelines throughout 2020.


↔ The BoE voted 7-2 to keep rates steady in November (two wanted a rate cut). Given lower odds of a no-deal Brexit, and expectations for fiscal stimulus next year, we now see the BoE keeping rates on hold.


↔ As expected, the ECB left its main policies and forward guidance unchanged at Draghi’s last meeting. We don’t expect the new president, Christine Lagarde, will make changes anytime soon as the ECB evaluates the impact of measures introduced in September.


↘ The RBA left its cash rate unchanged in November and sounded slightly more hawkish. We still think another rate cut is in the cards but have pushed back our call from December to February.

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Highlights

▲ The US labour market is showing few signs of strain and the consumer sector remains strong.

▲ Business investment declined for a second consecutive quarter in Q3…

▲ …but the latest survey data showed a slight improvement in sentiment.

▲ After 75 basis points of rate cuts since July, the Fed signaled it has taken out enough insurance.

US consumer keeps the economy on an even keel…

US GDP rose an annualized 1.9% in Q3, little changed from the previous quarter's pace and close to the country's longer-term run rate (which reflects demographic and productivity trends). As expected, it was the household sector that provided most of the thrust in Q3. Consumer spending was up nearly 3%, led for a second consecutive quarter by durable goods purchases, pointing to traction from lower interest rates. The Fed's rate cuts have also bolstered housing, which made a positive contribution to growth for the first time since 2017. The household sector continues to be supported by a strong labour market and rising wages. Excluding workers on strike in October (which weighed on that month's payroll figure to the tune of 46,000), employment growth has averaged a healthy 172,000 per month this year—strong enough to push the unemployment rate to new lows. We expect job growth will slow in the coming quarters, but more because of capacity constraints (there are already about 20% more job openings than there are unemployed persons) than layoffs or hiring freezes.

…as business investment declines further

Offsetting some of the strength in consumer spending and housing, business fixed investment declined for a second consecutive quarter in Q3 (just the second back-to-back declines this cycle). A further pullback in oil and gas investment (now 15% lower than a year ago) was a factor, though non-energy investment was also lower. We think the latter has been weighed down by trade policy uncertainty and global (or even domestic) growth concerns. Business sentiment in both manufacturing and non-manufacturing industries deteriorated throughout Q3 as trade tensions ratcheted higher and economic indicators in Europe and China pointed to greater risk of a slowdown.

October's PMI data showed some improvement, with the ISM non-manufacturing index bouncing 2 points from the previous month's three-year low. The manufacturing index crept slightly higher but remained in contractionary territory. One bright spot, though, was a sharp rebound in new export orders, which had hit a post-recession low in September. The modest upturn in business sentiment might reflect some of the optimism (also identifiable in financial markets) that the US-China trade war is entering a de-escalation phase. A canceling of further tariff hikes (or even better, a roll-back of some of the earlier increases) could go a long way to reducing trade uncertainty, but wouldn't fully eliminate it. Keeping in mind Trump's threats against Mexico earlier this year—coming just months after the new USMCA trade deal was struck—this administration's unpredictability on trade might keep businesses on edge even if a 'phase one' deal is reached.

Fed signals mid-cycle adjustment is complete

As was widely expected, the Fed cut rates for a third consecutive meeting in October. Recall that, following September's cut, the Fed was split on whether further easing would be appropriate. But ongoing concerns about global growth, and weakness in exports and business investment at home, likely helped form a consensus. There were just two dissents in October, coming from the same committee members who voted against moves in July and September. Again going back to the last dot plot, none of the committee expected to have to lower rates below the 1.50-1.75% target range set in October. That was reflected in the policy statement's pared-back forward guidance, with the committee no longer saying it will "act as appropriate to sustain the expansion." Chair Powell confirmed the shift to a neutral bias at his press conference, noting the current policy stance is "likely to remain appropriate" if the outlook evolves as expected (i.e. moderate growth, a strong labour market, and near-2% inflation). Powell emphasized that monetary policy is not on a pre-set course and will adjust as needed, but recent economic data (Q3 GDP, October payrolls) and trade policy developments (rising odds of a US-China deal) have likely left the Fed more confident in its base case. Our forecast assumed October's would be the last insurance cut, and given the Fed's new guidance, we continue to think it will move to the sidelines and hold policy steady throughout 2020.

Canada's economy looking a bit softer in H2/19…

Canadian GDP edged up by just 0.1% in August, marking a third consecutive month of sub-trend growth (albeit following three months of above-potential increases). Services output saw a more modest gain but was still up more than 2% from a year earlier. Goods production increased but the oil and gas sector remained soft with temporary production outages adding to weak drilling activity. Output should rebound as shutdowns are reversed, but the sector is facing new challenges with a recent pipeline spill disrupting transportation and pushing Western Canadian oil prices lower. And the familiar egress issues that have weighed on investment remain unresolved—additional pipeline capacity from Enbridge's Line 3 replacement is still several quarters away, while the Trans Mountain Expansion won't be in service for years.

…as global headwinds test the household sector's resilience…

Given a slow start to the quarter, we have trimmed our Q3 GDP call to 1.5%. Growth is forecast to remain below potential (which is closer to 1.8%) heading into 2020 with business investment expected to remain sluggish and exports unlikely to provide much support. Beyond weakness in the energy sector, our view on trade and investment is largely motivated by the global backdrop, which carries both upside and downside risks. Early signs of a bottoming out in manufacturing sentiment and potential for a US-China trade deal suggests key external headwinds could begin to subside. But the global industrial sector remains weak, and even if further tariff hikes are avoided, we could see more spillover into Canada. The BoC's latest Business Outlook Survey showed investment intentions remain healthy amid rising capacity constraints outside of the energy-producing provinces. But those intentions haven't translated into actual capital spending so far this year. Low borrowing costs don't seem to be enough to offset persistent trade uncertainty, or more structural issues like competitiveness and burdensome regulation.

The upshot is that Canada's household sector is once again being called on to support growth. Consumer spending has stabilized at a more moderate pace amid strong employment gains and rising incomes. The latter has helped some households manage an earlier increase in debt service payments (the overall household debt service ratio remains at a record high despite lower market interest rates this year). But with household savings remaining low and Canadians shying away from non-mortgage debt, consumers don't exactly have the firepower they once did. Home resales and building activity have picked up amid solid demographic demand and lower mortgage rates (unlike consumer credit, mortgage growth is accelerating). But while we think housing will add to growth in 2020, it can only do so much to offset manufacturing and investment headwinds.

…and the BoC finally gives up on neutrality

The Bank of Canada held rates steady in October but struck a much more dovish tone than in the summer, highlighting a "worsening global situation" as the primary issue. It noted escalating trade tensions and uncertainty are weighing more heavily on global growth, which will have knock-on effects on Canadian business investment and exports. The policy statement emphasized that the domestic economy's resilience (a key factor keeping the BoC on the sidelines this year) will be "increasingly tested as trade conflicts and uncertainty persist." Governor Poloz more or less confirmed an easing bias, noting Governing Council considered a rate cut at October's meeting. But ongoing strength in the services sector, robust job gains, a resurgent housing market (which threatens to add to already-elevated financial vulnerabilities), and indications that the economy is close to capacity in most regions gave the central bank cause for patience. The potential for more stimulative fiscal policy next year also seemed to influence its decision. Our assumption has been that the BoC's patience will eventually run out, with persistent trade uncertainty and below-trend growth around the turn of the year prompting a rate cut in early-2020. Rising odds of a US-China trade deal has pared back market expectations for a rate cut. But based on its October meeting, the BoC stands ready to act if global headwinds persist or the household sector begins to falter.

Highlights

▲ The energy sector continues to weigh on growth…

▲ …and external headwinds will put a cap on business investment and trade…

▲ …meaning the economy will once again rely on households and government for growth.

▲ The BoC said trade conflicts and uncertainty will test the Canadian economy's resilience.

Highlights

▲ The UK's December 12 election could determine the shape and timing of Brexit…

▲ …but either way, near term odds of a no-deal Brexit have declined.

▲ German industrial production is down 5% since the middle of last year, and the country's economy likely contracted again in Q3.

▲ Australian retail sales were flat in Q3, suggesting the consumer made little contribution to GDP growth.

Brexit deadline extended with UK heading to the polls

It's official—the UK is heading to the polls on December 12, hoping that a general election will resolve the current Brexit deadlock. While PM Boris Johnson was able to strike a new withdrawal agreement with the EU, he was unsuccessful in rushing it over the finish line ahead of the October 31 deadline and ultimately had to go along with an extension of up to three months. Johnson will now campaign on that deal, hoping a new Parliament gives him enough support to take the UK out of the EU by the end of January (with a transition period that would last until the end of 2020, and likely even longer as a trade agreement is negotiated). But while Johnson's Conservatives are ahead in the polls, there is a range of other outcomes that could send the UK back to the negotiating table, or even back to the polls for a second referendum. Whatever the outcome, the odds of a no-deal Brexit have declined substantially. That might relieve some of the most acute uncertainty that has weighed on UK businesses for more than three years now. But with the country's future trading relationship with the EU still up in the air, it's hardly an all-clear for businesses to go ahead and ramp up investment, which is down 3% since the end of 2017.

Where does that leave the Bank of England? We had assumed that ongoing Brexit uncertainty, combined with a softening global growth backdrop, would push the BoE toward a rate cut by year end. But with a no-deal exit seemingly off the table for now, there is less urgency to lower rates. The likelihood that fiscal policy will become more stimulative next year, as well as signs that US-China trade tensions might be easing, also points to less need for accommodation. Our forecast now assumes the Bank Rate will be held at its current level throughout 2020, though with some lingering risk of a cut if global growth disappoints or, in the BoE's words, "if Brexit uncertainties remain entrenched."

Germany's industrial slowdown deepens

Euro area GDP growth came in at 0.2% in Q3, matching the previous quarter's pace which itself equaled a multi-year low. On a country basis, the composition of growth looks to have been little changed with France and Spain continuing to expand but Germany's economy likely contracting for a second consecutive quarter. The latter's industrial slowdown continued in Q3 with manufacturing output falling for a fifth straight quarter. Caught between a number of global issues (US-China trade war, Brexit, EM slowdown), Germany's manufacturing PMI continues to point to contraction toward the end of the year. The country's services index stabilized after a sharp decline in September, but we remain on the lookout for signs that a slowdown in the country's sizeable manufacturing industry (which has seen hours worked cut back) is spreading to other sectors. The situation appears to be less dire in other major euro area economies, and the services sector improved in France and Italy in September. Both of those countries are expected to get a bit of fiscal lift, while the currency bloc as a whole is benefitting from stimulative monetary policy (we think the ECB is unlikely to contemplate any policy changes near-term after adding more stimulus in September). We expect euro area GDP growth will stabilize at 0.3% in the coming quarters—anything stronger than that will take a turnaround in the industrial sector, which we're only seeing tentative signs of at this stage, or a more notable effort at fiscal stimulus.

RBA looking (hoping?) for signs of policy traction

The RBA held its cash rate steady at 0.75% in November, delivering a slightly hawkish statement that suggests the 75 basis points of easing so far this year will be the extent of it in 2019. Ever-conscious of the global backdrop, the central bank noted that expectations for further monetary policy easing have been scaled back and financial market sentiment has improved somewhat. Domestically, the statement suggested rate cuts since June are supporting employment and income growth and the return of inflation to target over the medium term. But while lower interest rates have bolstered housing, we see few other signs of policy traction. Retail sales volumes were down slightly in Q3, suggesting consumer spending made little contribution to growth in the latest quarter. The latest jobs numbers showed a slight decline in the unemployment rate, but trend measures still point to plenty of slack in the labour market. And while core inflation readings have stabilized at around 1.4% year-over-year, there is little to indicate a pickup toward the RBA's 2-3% target range. So we continue to expect the cash rate will be lowered to 0.50% this cycle, but have pushed back the next move to February.

Interest rate outlook

%, end of period

	Actuals							Forecast				
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canada												
Overnight	1.25	1.25	1.50	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50
Three-month	1.10	1.26	1.59	1.64	1.67	1.66	1.65	1.60	1.40	1.40	1.40	1.40
Two-year	1.78	1.91	2.21	1.86	1.55	1.47	1.58	1.45	1.40	1.45	1.55	1.60
Five-year	1.97	2.07	2.34	1.89	1.52	1.39	1.40	1.50	1.50	1.60	1.65	1.70
10-year	2.09	2.17	2.43	1.97	1.62	1.47	1.36	1.60	1.70	1.80	1.80	1.80
30-year	2.23	2.20	2.42	2.18	1.89	1.69	1.53	1.75	1.85	1.90	1.95	1.95
United States												
Fed funds**	1.75	2.00	2.25	2.50	2.50	2.50	2.00	1.75	1.75	1.75	1.75	1.75
Three-month	1.73	1.93	2.19	2.45	2.40	2.12	1.88	1.65	1.65	1.65	1.65	1.65
Two-year	2.27	2.52	2.81	2.48	2.27	1.75	1.63	1.65	1.70	1.75	1.75	1.75
Five-year	2.56	2.73	2.94	2.51	2.23	1.76	1.55	1.70	1.80	1.90	1.90	1.90
10-year	2.74	2.85	3.05	2.69	2.41	2.00	1.68	1.90	2.00	2.10	2.10	2.10
30-year	2.97	2.98	3.19	3.02	2.81	2.52	2.12	2.40	2.45	2.50	2.50	2.50
United Kingdom												
Bank rate	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Two-year	0.82	0.72	0.82	0.75	0.63	0.62	0.37	0.55	0.60	0.60	0.60	0.60
10-year	1.34	1.28	1.57	1.27	0.99	0.84	0.49	0.85	0.90	1.00	1.10	1.10
Euro area												
Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
Two-year	-0.59	-0.69	-0.55	-0.59	-0.60	-0.73	-0.74	-0.80	-0.80	-0.80	-0.75	-0.75
10-year	0.50	0.31	0.47	0.25	-0.07	-0.33	-0.58	-0.25	-0.10	-0.05	0.00	0.00
Australia												
Cash target rate	1.50	1.50	1.50	1.50	1.50	1.25	1.00	0.75	0.50	0.50	0.50	0.50
Two-year	2.00	2.00	2.02	1.89	1.47	0.98	0.76	0.75	0.50	0.50	0.50	0.50
10-year	2.60	2.63	2.67	2.32	1.78	1.32	1.01	1.15	1.20	1.30	1.30	1.30
New Zealand												
Cash target rate	1.75	1.75	1.75	1.75	1.75	1.50	1.00	0.75	0.50	0.50	0.50	0.50
Two-year swap	2.21	2.14	2.02	1.96	1.62	1.35	0.92	0.85	0.75	0.75	0.75	0.75
10-year swap	3.06	3.02	2.89	2.64	2.15	1.78	1.20	1.35	1.35	1.45	1.45	1.45
Yield curve*												
Canada	31	26	22	11	7	0	-22	15	30	35	25	20
United States	47	33	24	21	14	25	5	25	30	35	35	35
United Kingdom	52	56	75	52	36	22	12	30	30	40	50	50
Eurozone	109	100	102	84	53	40	16	55	70	75	75	75
Australia	60	63	65	43	31	34	25	40	70	80	80	80
New Zealand	85	88	87	68	53	43	28	50	60	70	70	70

* Two-year/10-year spread in basis points, **Top of 25 basis point range

Source: Reuters, RBC Economics Research

Central bank policy rate

%, end of period

		Current	Last				Current	Last	
United States	Fed funds	1.50-1.75	1.75-2.00	October 31, 2019	Eurozone	Deposit rate	-0.50	-0.40	September 18, 2019
Canada	Overnight rate	1.75	1.50	October 24, 2018	Australia	Cash rate	0.75	1.00	October 1, 2019
United Kingdom	Bank rate	0.75	0.50	August 1, 2018	New Zealand	Cash rate	0.75	1.00	October 1, 2019

Source: Bloomberg, Reuters, RBC Economics Research

Economic outlook

Growth outlook

% change, quarter-over-quarter in real GDP

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	1.5	2.5	2.1	0.3	0.5	3.7	1.5	1.4	1.4	1.6	1.7	1.6	3.0	1.9	1.6	1.7
United States*	2.6	3.5	2.9	1.1	3.1	2.0	1.9	1.5	1.5	1.6	1.8	1.8	2.4	2.9	2.3	1.7
United Kingdom	0.1	0.5	0.6	0.3	0.6	-0.2	0.4	-0.1	0.3	0.1	0.3	0.3	1.9	1.4	1.3	0.7
Euro area	0.3	0.4	0.2	0.3	0.4	0.2	0.2	0.3	0.3	0.4	0.4	0.3	2.7	1.9	1.2	1.2
Australia	1.0	0.7	0.3	0.1	0.5	0.5	0.7	0.7	0.6	0.5	0.8	0.7	2.4	2.7	1.8	2.5

*annualized

Inflation outlook

% change, year-over-year

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	2017	2018	2019F	2020F
Canada*	2.1	2.3	2.7	2.0	1.6	2.1	1.9	2.1	1.9	1.5	1.4	1.6	1.6	2.3	1.9	1.6
United States*	2.2	2.7	2.6	2.2	1.6	1.8	1.8	1.9	2.2	1.9	2.0	2.0	2.1	2.4	1.8	2.0
United Kingdom	2.7	2.4	2.5	2.3	1.8	2.0	1.9	1.7	1.9	1.7	1.8	1.8	2.7	2.5	1.8	1.8
Euro area	1.3	1.7	2.1	1.9	1.4	1.4	1.0	1.1	1.5	1.0	0.8	0.9	1.5	1.8	1.2	1.0
Australia	1.9	2.1	1.9	1.8	1.3	1.6	1.7	1.4	1.9	1.9	2.0	2.1	1.9	1.9	1.4	2.0

Source: Statistics Canada, Bureau of Economic Analysis, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Inflation tracking

Inflation Watch

	Measure	Current period	Period ago	Year ago	Three-month trend	Six-month trend
Canada	CPI ex food & energy[1]	Sep	0.1	2.1	2.0	2.4
United States	Core PCE[1,2]	Sep	0.0	1.7	2.2	1.7
United Kingdom	All-items CPI	Sep	0.1	1.7	1.7	2.3
Euro area	All-items CPI[1]	Oct	0.1	0.7	0.8	1.2
Australia	Trimmed mean CPI[1]	Q3	0.4	1.6	N/A	N/A
New Zealand	All-items CPI	Q3	0.7	1.5	N/A	N/A

1 Seasonally adjusted measurement.
2 Personal consumption expenditures less food and energy price indices.

Source: Statistics Canada, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, Australian Bureau of Statistics, Statistics New Zealand, RBC Economics Research

Currency outlook

Level, end of period

	Actuals							Forecast					
	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
Canadian dollar	1.29	1.31	1.29	1.36	1.33	1.31	1.32	1.30	1.30	1.31	1.32	1.33
Euro	1.23	1.17	1.16	1.15	1.12	1.14	1.09	1.08	1.08	1.10	1.10	1.12
U.K. pound sterling	1.40	1.32	1.30	1.28	1.30	1.27	1.23	1.26	1.26	1.28	1.28	1.30
Japanese yen	106.3	110.8	113.7	109.7	110.9	107.9	108.1	110.0	112.0	111.0	110.0	109.0
Australian dollar	0.77	0.74	0.72	0.70	0.71	0.70	0.68	0.68	0.67	0.67	0.66	0.66

Canadian dollar cross-rates

	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
EUR/CAD	1.59	1.53	1.50	1.56	1.50	1.49	1.44	1.40	1.40	1.44	1.45	1.49
GBP/CAD	1.81	1.73	1.68	1.74	1.74	1.66	1.63	1.63	1.63	1.68	1.69	1.73
CAD/JPY	82.4	84.3	88.1	80.4	83.0	82.4	81.6	84.6	86.2	84.7	83.3	82.0
AUD/CAD	0.99	0.97	0.93	0.96	0.95	0.92	0.89	0.88	0.87	0.88	0.87	0.88

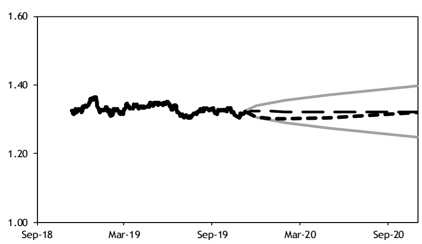
Rates are expressed in currency units per US dollar and currency units per Canadian dollar, except the euro, UK pound, Australian dollar, and New Zealand dollar, which are expressed in US dollars per currency unit and Canadian dollars per currency unit.

Source: Bloomberg, RBC Economics Research

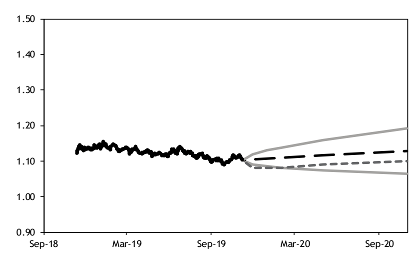
RBC Economics outlook compared to the market

The following charts track historical exchange rates plus the forward rate (dashed line) compared to the RBC Economics forecast (dotted line) out one year. The cone for the forecast period frames the forward rate with confidence bounds using implied option volatilities as of the date of publication.

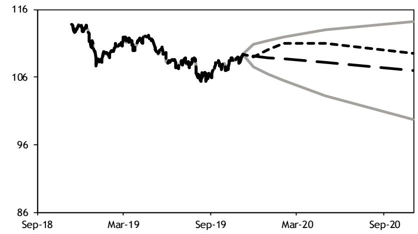
Canadian dollar



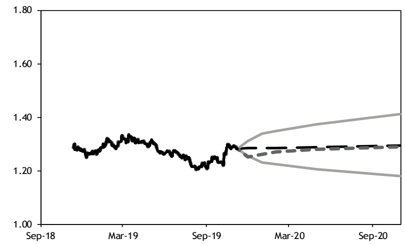
Euro



Japanese yen



U.K. pound

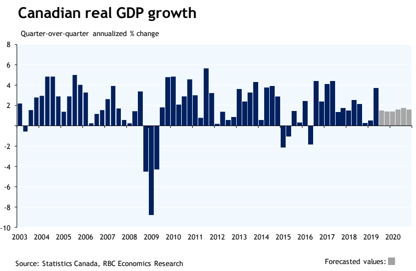


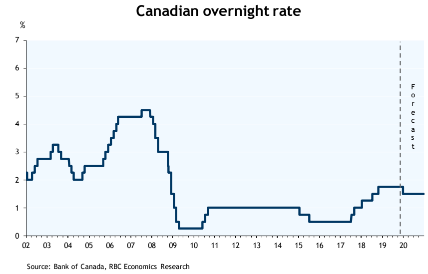
Central bank watch

Bank of Canada

A slow start to the quarter has us tracking sub-trend GDP growth of 1.5% in Q3. The BoC also expects modest growth (1.3%) over H2/19 with business investment and exports declining.

The BoC stands ready to lower rates if global head-winds persist or cracks emerge in the so-far-resilient consumer and housing sectors. Our forecast continues to assume a rate cut early next year.

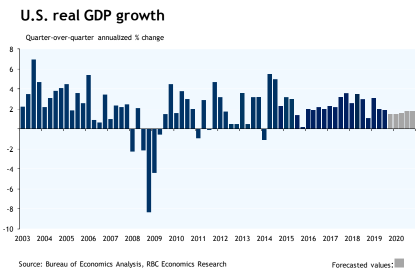


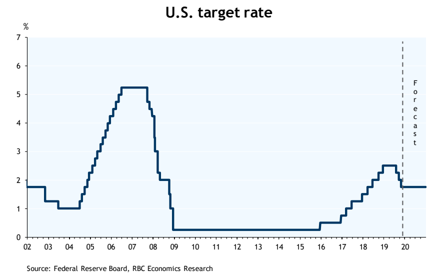


Federal Reserve

The US economy recorded another trend-like GDP gain in Q3 with consumer spending and housing supporting growth while business investment declined amid rising trade uncertainty.

A healthy consumer sector and signs that US-China trade tensions might be easing will likely keep the Fed on the sidelines following 75 basis points of "insurance" cuts since July.

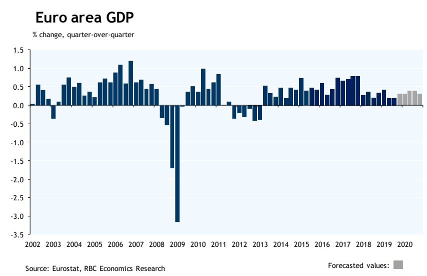


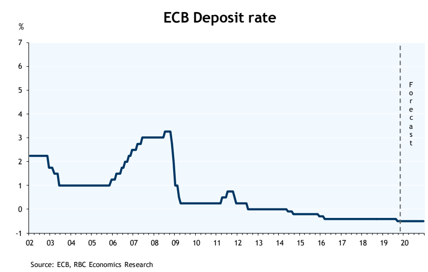


European Central Bank

Euro area GDP grew at a sub-trend 0.2% pace in Q3 with France and Spain seeing moderate gains while Germany's economy likely contracted for a second consecutive quarter.

We think the ECB will remain on the sidelines for now, evaluating the impact of September's moves and hoping fiscal policy will provide a bit more stimulus for the euro area's struggling economy.

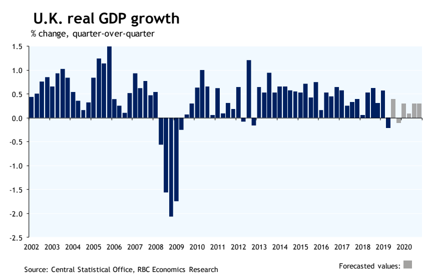


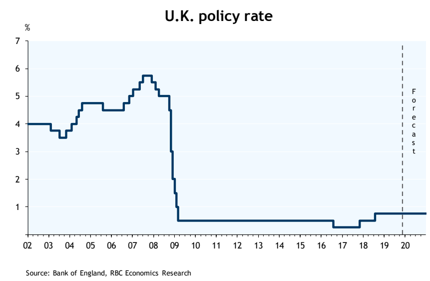


Bank of England

UK GDP likely picked up in Q3, but some of the increase will have come from pre-deadline Brexit inventory building, which also boosted growth in Q1. Early PMI data points to slower growth in Q4.

Lower odds of a no-deal Brexit and trade war escalation make a bank rate cut less likely. Barring a further global slowdown or resurgent Brexit uncertainty, we think the BoE will remain on hold.

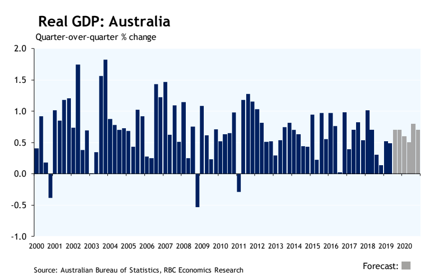


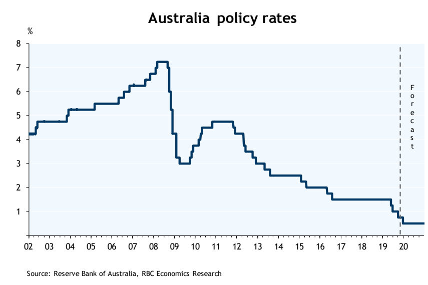


Reserve Bank of Australia

The RBA sounded a bit more hawkish in November, noting less momentum behind the global easing cycle, as well as expectations that earlier easing will support the Australian economy.

We expect the RBA will lower rates again early next year amid persistent labour market slack, and with inflation stuck below its 2-3% target range.



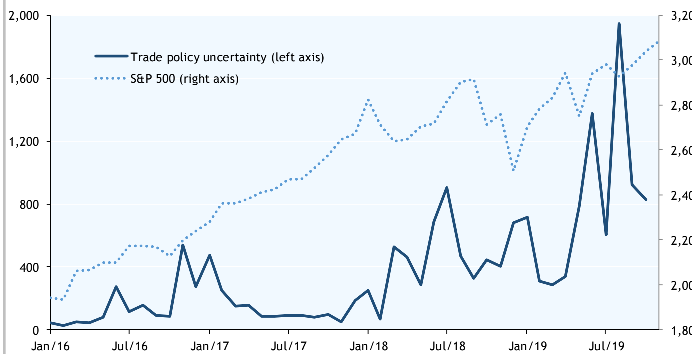


Some key trends from 2019 might just be winding down

This has been a year of unprecedented trade policy uncertainty. Markets have followed the ups and downs on trade, with the S&P 500 posting declines in May and August when uncertainty was on the rise. With a US-China trade deal looking increasingly likely, the stock market index is now at record highs.

US trade policy uncertainty index and S&P 500

news-based policy uncertainty index, 1985-10=100

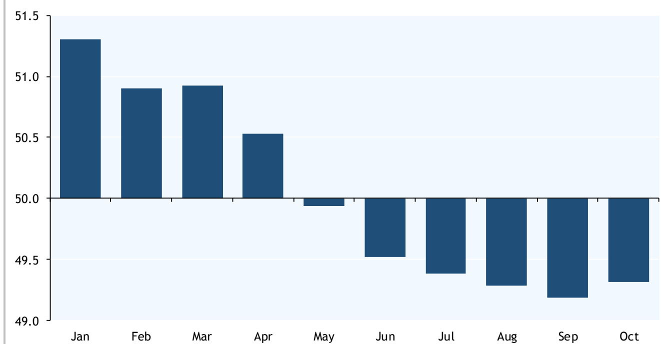


Source: PolicyUncertainty.com, RBC Economics

Tariffs and trade uncertainty have contributed to a slowdown in global trade and industrial production. Manufacturing PMIs showed tentative signs of bottoming out, albeit at low levels that generally point to contraction. A US-China trade deal could help boost sentiment in the sector.

Global manufacturing PMI

50+=expansion



*uses average of US ISM and IHS Markit PMIs
Source: JP Morgan, IHS Markit, RBC Economics

Central banks have responded to trade uncertainty and growth concerns by easing monetary policy. But with the global rate cutting cycle starting to lose momentum, government bond yields have increased from late-summer lows.

US and German government bond yields

weekly data, end of period

Source: US Treasury, Reuters, RBC Economics

More than three years after the UK voted to leave the EU, Brexit remains a point of uncertainty. The country is heading to the polls for a general election that could determine when and how it leaves the EU. The odds of leaving without a deal have declined, lifting Sterling some 7% from its earlier, multi-decade lows.

GBP/USD exchange rate

weekly data, end of period

Source: Bank of England, RBC Economics