INSIDE ECONOMICS

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GLOBAL MARKETS : An ECB diet

The ECB revised its Eurozone growth forecast for 2013 lower. But even though a rate cut has been discussed, no indication was given that such a move is getting any closer. Indeed, the assumption about a recovery later in the year is maintained, and OMT remains the only tool in the ECB's box of "non-conventional policy". The OMT will continue to keep destabilizing factors, such as the Italian election, from unsettling the peripheral markets excessively. From a cyclical point of view, compared to the Fed's QE3-feast and the expected stimulus from the Bank of Japan, ECB policy looks positively like a diet. And the Eurozone economy is indeed losing weight (see below).

Stock markets rebounded over the week with the Eurostoxx outperforming the S&P. Market concern over the Italian situation appears to have eased and the ECB's official optimism might have helped as well. On that basis Eurostoxx outperformance could arguably continue if the US stock market continues higher. This depends crucially on how the market evaluates the net benefit from a stronger US economy (see below) against the prospects of an end to QE down the line. If our bullishness on the US economy materializes, that balance will get increasingly delicate. Treasuries and Bunds would only look good in this scenario during occasional stock market sell-offs and would otherwise continue an inevitable path towards higher yields. QE-dependent commodities would probably see the worst performance, leaving the USD as the clearest identifiable winner.

MACRO UPDATE: Tectonic plates

The non-manufacturing ISM for February surpassed expectations with a reading as high as 56.0, thus completing the picture of an upbeat business sector outlook suggested by its manufacturing counterpart and, for good measure, with forward looking *new orders* looking up. Factory orders saw a 2% setback in February for largely the same reason the headline durable goods orders did (aircraft and defense) which does not change the underlying trend. More importantly, the nonfarm payrolls for February significantly overshot expectations at 236K, with gains across the board of sectors. The unemployment rate dropped to 7.7% from 7.9%, flattered by a drop in the civilian labour force. But job creation since payrolls bottomed in Feb 2010 is actually not far off what was seen since they bottomed in 2003 and tree years forward. This, together with housing, is one of the tectonic plates of the US economy moving in the right direction, overshadowing the fiscal cliff.

The Eurozone services PMI for February was revised up to 47.9 from 47.3 with France benefitting more from the revision than Germany. But the difference between the two (43.7 vs 54.7) remains staggering and poses uneasy question s about policy-orientation at the core of the Eurozone. The second estimate for 4Q12 GDP confirmed the drop in overall activity of 0.6%, with weakness in both consumption and capital goods investment and with the external sector largely neutral to growth. German factory orders for January were weaker than expected as was industrial production, seemingly at odds with the upbeat reading of business surveys. On a more positive note, Eurozone retail sales were stronger than expected in January, following several months of weakness.

In China, the HSBC services PMI for February dropped to 52.1 from 54.0, but exports rebounded.

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