

# Eurozone sees economic outlook worsening amid uncertain US trade policy



YVES HERMAN/REUTERS

The European Commission lowered its forecast on Wednesday for the eurozone economy next year, saying that uncertainty over US trade policy posed a major risk to the bloc.

In its quarterly economic forecasts, the European Union's executive arm also lowered its estimate for inflation in the bloc, predicting that it would be further off the European Central Bank's target of close to but less than two percent, Reuters reported.

The commission confirmed its prediction that economic growth in the eurozone would slow this year to 1.2 percent from 1.9 percent in 2018. It also lowered its estimate for next year's growth, which is now seen at 1.4 percent instead of the 1.5 percent forecast in May.

Risks for the bloc have increased, the commission said, and mostly come from 'the elevated uncertainty' around US trade policy, as Washington keeps threatening punitive tariffs on a broad range of EU products.

The weaker economic outlook contributed to a downward revision of inflation expectations, the commission said, cutting its estimate to 1.3 percent for this year and next from the 1.4 percent it previously estimated for both years.

This year's forecast matches the ECB's projection, but for 2020 the commission's estimate is lower than the 1.4 percent rate forecast by the central bank in its latest projections, released in June. That could give the ECB a reason to push ahead with fresh stimulus.

## Italy, Germany lag behind

The commission confirmed the economic slowdown in the eurozone was mostly caused by slower growth in Germany, the eurozone's largest economy, and Italy, its third largest.

German growth will slow to 0.5 percent this year, it predicted in May, after reaching 1.4 percent in 2018. Growth is expected to return to 1.4 percent next year, less than the 1.5 percent the commission predicted earlier.

Forecasts for Italy remained unchanged, reiterating its economy will see the worst growth rate in the whole 28-country EU. Next year's growth is expected to accelerate to 0.7 percent but remain the slowest in the bloc.

The commission maintained unchanged its forecasts for Britain, whose economy is foreseen growing 1.3 percent this year and next.

However, the projection does not take into account possible trade disruptions caused by a no-deal Brexit.

## US, China negotiators resume trade war talks

Top US and Chinese negotiators held phone talks on Tuesday as the world's top two economies seek to resolve their trade war, more than a week after they declared a truce.

Talks had broken down in May over US accusations that Beijing had reneged on its commitments, and the dispute escalated with the two sides exchanging steep increases in punitive tariffs, AFP reported.

But US President Donald Trump and Chinese leader Xi Jinping agreed to revive negotiations when they met on the sidelines of the G20 summit in Japan on June 29.

US Treasury Secretary Steven Mnuchin and Trade Representative Robert Lighthizer spoke with Chinese Vice Premier Liu He and Commerce Minister Zhong Shan on Tuesday.

White House economic adviser Larry Kudlow told reporters the talks 'went constructively' but it was 'too soon for details'.

In an interview with the Fox Business Network, Kudlow described the discussions as 'preliminary' and said meetings will 'probably' be arranged, but did not give more details.

Kudlow noted that Trump has agreed to hold off on imposing new tariffs and will

SAUL LOEB/AFP  
Chinese Vice Premier Liu He (L) shakes hands with US Trade Representative Robert Lighthizer alongside US Treasury Secretary Steven Mnuchin (C) as Liu leaves the Office of the United States Trade Representative after trade negotiations in Washington, DC, on May 10, 2019.

allow certain US products to be sold to Chinese telecom giant Huawei.

"Having said that, we have a very strong — I want to underscore this — a very strong expectation that China will really shortly, maybe immediately, begin to purchase US agricultural products," he told the US broadcaster.

The Chinese Commerce Ministry said

in a brief statement that the two sides exchanged "opinions on implementing the consensus reached between the two countries' heads of state in Osaka."

Washington and Beijing have hit each other with punitive tariffs covering more than \$360 billion in two-way trade and those duties remain in place.

After his meeting with Xi in Osaka,

Trump said he would refrain from imposing tariffs on more Chinese products. He had previously threatened to put punitive duties on an additional \$300 billion in Chinese exports.

He also triggered a backlash in the US Congress by agreeing to soften some US export restrictions on components to Huawei, though Trump stipulated that officials would take care to avoid creating new risks to US national security.

The US had imposed tough sanctions on the company, whose equipment US officials fear could be used as Trojan horses for China's intelligence services.

The ceasefire comes as the US presidential campaign has started ahead of the November 2020 election.

Asked about speculation that Beijing may be waiting to see how the race plays out, Kudlow said it "would be a very big mistake on their part."

"I think that kind of thinking would probably do great damage to these trade talks," he said.

But he suggested that the US was in no hurry to finalize a deal.

"Speed is not an issue, quality is the issue," Kudlow said.

"And so I make no forecast on that and reiterate this view. There's no timetable, none of that stuff."

## UK economy grows more than expected in May, helped by autos rebound



Britain's economy grew more than expected in May, helped by a rebound in car production after Brexit-related shutdowns, according to figures that will ease concerns about the extent of the country's slowdown.

Overall output expanded 0.3 percent after contracting by 0.4 percent in April, the Office for National Statistics said, stronger than all forecasts in a Reuters poll that had pointed a rise of 0.1 percent.

"The economy returned to growth in the month of May, following the fall seen in April. This was mainly due to the partial recovery in car production," ONS statistician Rob Kent-Smith said.

Car manufacturers in Britain brought forward their annual summer maintenance shutdowns to April to help dodge potential disruption in the aftermath of the original March 29 Brexit deadline, which has now been pushed back to October.

The Bank of England, worried about global trade tensions as well as Brexit uncertainty, forecast last month that economic output would flatline during the three months to June after growth of 0.5 percent in the first quarter of the year.

Business surveys last week showed the world's fifth biggest economy lost momentum in June and might even have shrunk in the second quarter of 2019.

But Wednesday's data suggested the economy might be on track to eke out a little growth in the second quarter.

Output in the three months to May was 0.3 percent higher than in the previous three-month period, helped by an upward revision to growth in March and again beating the consensus forecast for growth of 0.1 percent.

Compared with a year earlier, growth in May alone stood at 1.5 percent, stronger than the median poll forecast for 1.3 percent.

## In blow to Mexican president, markets, finance minister quits over economic 'extremism'

Mexico's moderate Finance Minister Carlos Urzua resigned on Tuesday with a letter that shocked markets by citing 'extremism' in economic policy, before President Andres Manuel Lopez Obrador quickly named a well-regarded deputy minister to replace him.

In the unusually strongly worded resignation note made public on his Twitter account, Urzua said the government was forming economic policy without sufficient foundation, according to Reuters.

"I'm convinced that economic policy should always be evidence-based, careful of potential impacts and free of extremism, either from the right or the left," Urzua wrote.

"These convictions did not resonate during my tenure in this administration," Urzua said.

He also said there were what he called conflicts of interest in the appointment of some ministry officials imposed on him by influential members of the government. He did not give more details.

The Mexican peso fell over two percent on the news and the benchmark stock index slid almost 1.5 percent. Both recovered a little after Lopez Obrador quickly promoted Deputy Finance Minister Arturo Herrera to the top job.

Well known to investors and seen as a competent economic manager, Herrera now has the task of reviving economic growth while meeting a one percent primary budget surplus, kick-starting flagging investment and fending off downgrades from ratings agencies worried about indebted state-oil company Pemex.

"(Herrera) is a well-known figure with good dialogue with market participants and is not perceived as a ... dogmatic individual," said Alberto Ramos, head of Latin American research at Goldman Sachs.

"But in light of the unusual content of Urzua's resignation letter there is out there the lingering question of who is ultimately in charge of running economic policy," Ramos said.

REUTERS  
Mexican Finance Minister Carlos Urzua

Urzua, a slightly disheveled former academic prone to mild verbal gaffes, was a very different finance minister from Mexico's recent tradition of slick technocrats who spoke the language of Wall Street.

However, he was seen by markets as a moderate whose commitment to fiscal discipline was a bright spot in the administration of Lopez Obrador, which has frequently buffeted markets with a surprise policy decision.

Before the government took office on December 1, Urzua was tasked with meeting with dozens of investment funds to convey that the government was center-left, rather than leftist.

On his watch, however, Urzua was hit by a sovereign debt downgrade and contracting economic growth as he stuck to fiscal targets while setting aside money to support Pemex and Lopez Obrador's plans to splash out on a new oil refinery.

A 64-year-old economist, Urzua is an old friend of the president and served as his finance minister when Lopez Obrador was Mexico City's mayor.

Urzua deeply cut back spending programs in a strategy aimed at cleaning out corruption and largess with a new, more centralized model of assistance. He also began a program of centralizing procurement, in another drive for efficiency and clean government.

Both actions have been blamed for shortages in areas such as health care, where lack of medicines led to the high-profile resignation of the public health system chief earlier this year.

In a video message to announce his successor, Lopez Obrador said Urzua was not comfortable with the decisions being taken to upend what the president frequently calls the neoliberal era in Mexico, starting in the 1980s.

"We are committed to changing economic policy that has been imposed for the past 36 years," Lopez Obrador said.

"We can't put old wine in new bottles."  
"We believe there will be economic growth, that we will progress in the country by fighting corruption and ... with a policy of austerity," the president said.

### Major Currencies

Currency	To USD	Currency	To USD
Turkish Lira	0.1740	Japanese 100 Yen	0.9182
Euro	1.1220	Chinese Yuan	0.1452
British Pound	1.2474	UAE Dirham	0.2722
Australian Dollar	0.6921	Kuwaiti Dinar	3.2842
Canadian Dollar	0.7619	Iraqi 100 Dinar	0.0838

### Major Commodities

Crude Oil	\$59.24	Silver	\$15.13
Gold	\$1397.40	Platinum	\$818.40
Copper	\$2.65	Wheat	\$500.50