

Focus

In January 2019, interest rates on public sector loans increased substantially. The euro IRS curve on the other hand only rose slightly, implicating an increase in spreads on public sector loans. Why is the increase noteworthy and what has caused it?

A spread is an additional interest component charged by lenders for, amongst others, counterparty risk and liquidity risk. Together with the base interest rate, which is based on a market curve such as the IRS curve, it forms the coupon of a loan. In general it can be concluded that an increase in spreads results in higher interest costs on loans.

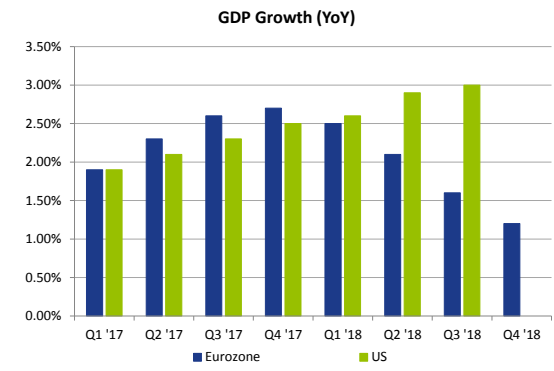
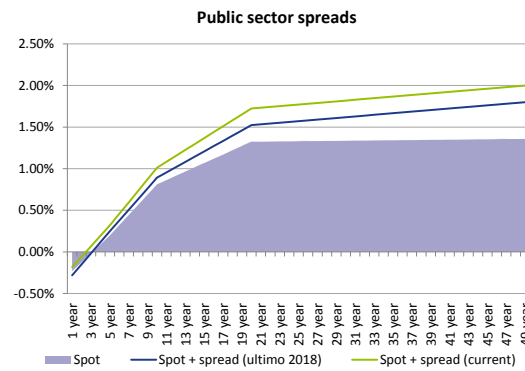
The increase in the spread on Dutch public loans in January 2019 is outstanding because off to the pace. Especially, considering the historical low spreads measured on Dutch public loans at the end of 2018. Zanders even recorded negative spreads for short-term spread periods on guaranteed loans in 2018. However, at the end of January 2019, European financial services provider AFS recorded positive spreads for all tenors, indicating a spread growth rate on tenors up to 15 years of between 5 to 12 basis points compared to previous month.

Several developments have affected the significant increase in spreads. Firstly, it is argued that low and even negative are unsustainable. A recovery to a higher level could therefore be expected. The turbulent start of the stock markets in 2019, market expectations about monetary policies of central banks and the uncertainties in financial markets will also have had an impact on the level of the spreads in January 2019.

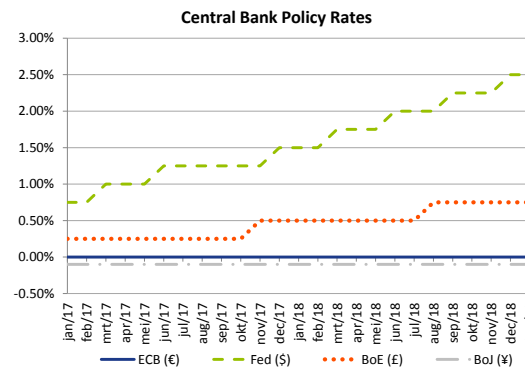
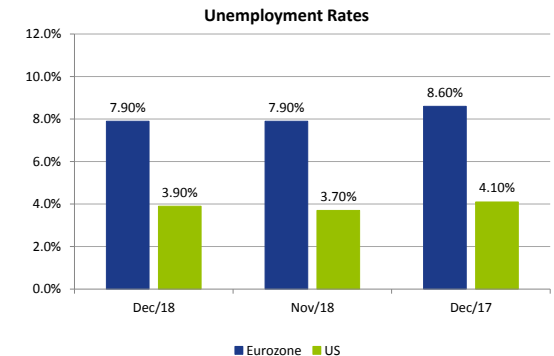
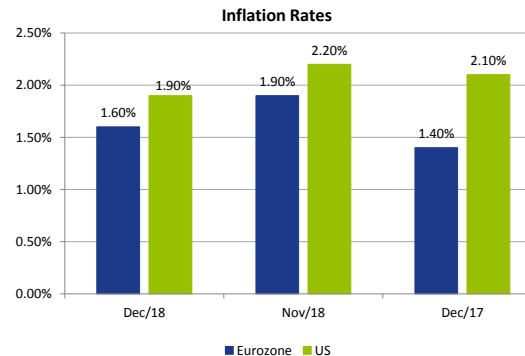
Whether the spreads on public sector loans will increase even further in 2019 is uncertain. With the trade war between China and the US, and the uncertainties about monetary policies of central banks in 2019, it cannot be ruled out that spreads will show a further increase in 2019.

Monthly Preview

- Timeline macroeconomic indicators:
 1 February 2019: CPI Eurozone (YoY)
 11 February 2019: United Kingdom GDP
 23 February 2019: CPI United Kindom



* US Q4 figures have not been published.



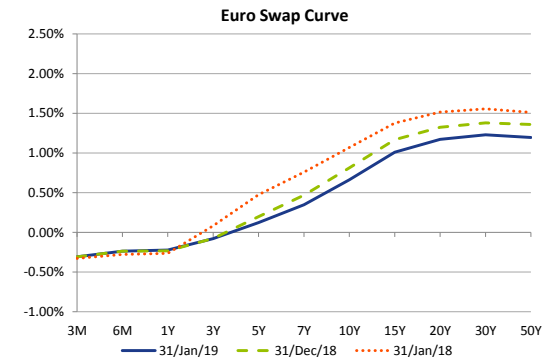
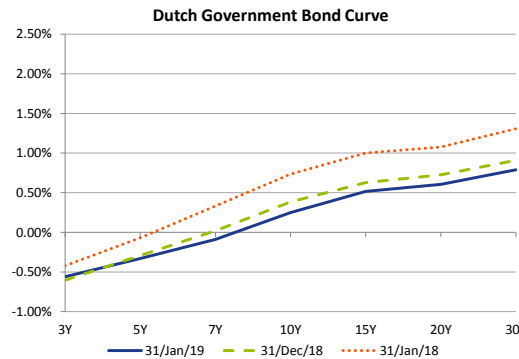
Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA
Russia	BBB-	Ba1	BBB-
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

Review & Preview

On Friday 25 January 2019, the Republicans and Democrats in the United States (US) House of Representatives have reached an agreement to temporarily stop the shutdown of the American government. During the shutdown, which lasted 35 days, 800,000 American officials were unpaid. In the short-term agreement, which is valid until 15 February, it is agreed upon to continue the debate about building a wall along the US/Mexico border. For President Trump, the construction of the border wall is one of his priorities. In coming weeks the negotiations will continue preventing economic damage. Recent estimates from the US government show that the economic damage caused by the shutdown amounts to approximately USD 11 billion, of which approximately USD 8 billion can be recovered if the US government can again fulfil its obligations for a longer period.

On Wednesday, January 16, the Brexit proposal by Theresa May was voted out by a large majority in the British parliament (202 in favor, 432 against). This is the biggest defeat for a British prime minister ever in the British House of Commons. Labor leader Jeremy Corbyn filed a vote of no confidence immediately after the result, which was rejected the next day. Prime Minister May indicated that she would return to Brussels to negotiate a different interpretation of the deal. However, according to critics, her alternative plan, which was presented on 21 January, is not very different from her 'plan A'. At the end of January, the House of Commons passed a motion stating that a Brexit deal could be closed if the 'backstop' regarding the Irish border issue disappears from the agreement. Several European leaders, however, have already indicated that there can not be any renegotiations regarding the 'backstop'. The date on which Brexit must be completed, March 29 2019, is getting closer, increasing the chance of a no-deal Brexit.

The trade frictions between China and the US continue. At first the expectations seemed positive after the discussions between the two countries. During the month, however, it appeared that the trade war persists, partly due to the arrest of a board member from the Chinese telecom company Huawei in Canada. This happened at the request of the US. The ongoing conflict has a negative effect on the Chinese economic growth, which in 2018 was projected to be 6.6%, the lowest level since 28 years. The Chinese central bank lowered the reserve requirements for banks on several occasions, in an effort to maintain economic growth.



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	A+
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AA+
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB+
BNP Paribas	A	Aa3	A+
Barclays Bank	A	A2	A+
Credit Suisse Int.	A	A1	A-

Currencies	31/Jan/19	31/Dec/18	31/Jan/18
EUR/USD	1.145	1.147	1.241
EUR/GBP	0.873	0.899	0.875
EUR/CHF	1.138	1.126	1.156
EUR/JPY	124.650	125.825	135.545
EUR/DKK	7.466	7.466	7.443
EUR/SEK	10.357	10.153	9.781
EUR/CAD	1.502	1.564	1.529
EUR/AUD	1.574	1.627	1.541
EUR/CNY	7.670	7.887	7.806

