Focus

Central banks aim for financial stability. A stable financial system is resilient to economic shocks and essential for economy growth and prosperity. It guarantees an economy in which governments, companies and consumers can save, borrow, invest and hedge financial risks securely and efficiently. How stable is our current financial system?

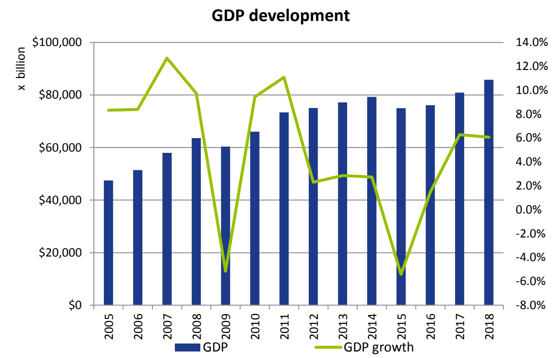
According to DNB and the ECB it has become more challenging to ensure financial stability. Interest rates are still historically low and markets are faced with high liquidity. These market conditions do not incentivize governments and companies to repay their debts, because it is cheap and easy to borrow funds. The high debt positions threaten the financial stability if economic sentiment reverses.

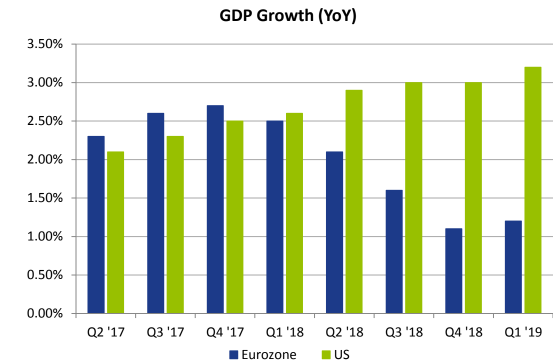
At the end of the third quarter of 2018, global indebtedness peaked at 230% of GDP. In comparison, in 2005 this was just under 200%. The increase is even more notable if you consider that global GDP rose from USD 47,450 billion in 2005 to USD 85,790 billion in 2018. This is an increase of 81% and implies that the absolute level of indebtedness has increased significantly.

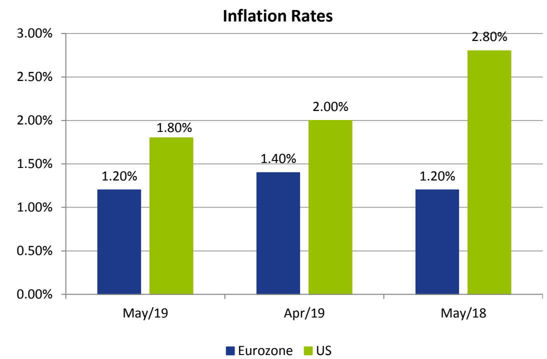
Moreover, several countries in Europe and the rest of the world, that currently have a high level of public debt, do not use the current level of economic activity to repay their debts. Instead, they continue to raise more debt funding. Only a few countries, including the Netherlands, have been able to reduce their debt to GDP ratios in the past years.

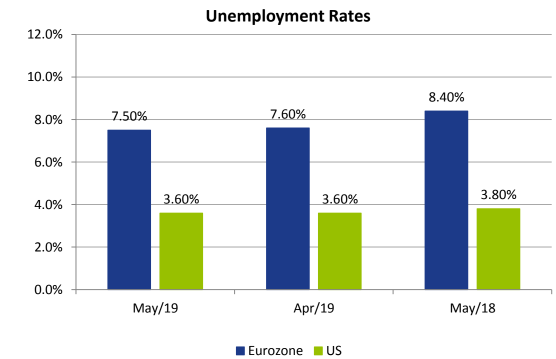
However, it is not just high levels of indebtedness that pose a threat to financial stability. Historically low interest rates and increasing liquidity have fueled the search for yield. This has resulted in large price increases on stock markets in recent years. For example, the Dow Jones Industrial Average increased in value by close to 116% between the end of 2005 and 2018. Also, global tensions, such as Brexit and the trade war between the US and China create risks, as they could lead to corrections on financial market, resulting in increased difficulty to service debt payments as risk spreads and interest rates increase.

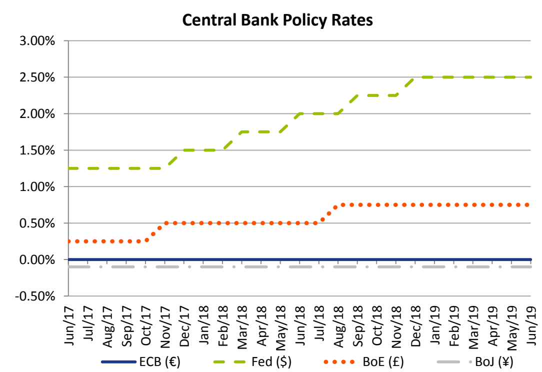
Increased risks and the limited ability to further control economic activity create a challenge when it comes to safeguarding financial stability. In the coming years, these risks are not expected to decrease, and therefore central banks will be working very hard to try to ensure financial stability.











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-	Baa3	BBB-
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

ZANDERS
TREASURY ▪ RISK ▪ FINANCE

June in Review & Outlook

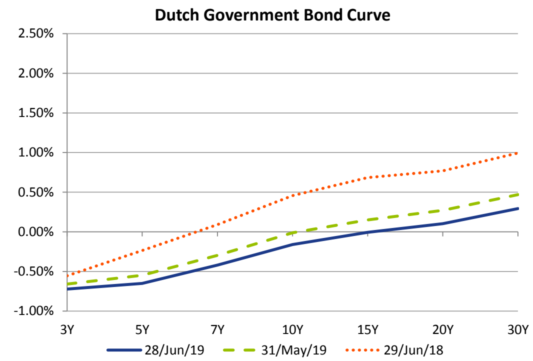
In June 2019, the yield on ten-year European government bonds decreased sharply to historical lows. Investors massively searched for safe investments, mainly because of the conflict between Iran and the US and the continuing trade tensions between China and the US. The effect was reinforced by comments from ECB President Mario Draghi, who stated in a press conference that the ECB would not hesitate to lower its main policy rate or to extend the buyback program to stimulate the economy in the Eurozone. According to ING analysts, the decline of the European Sentiment Indicator (ESI) in June 2019 indicates that economic growth in the eurozone will fall sharply in the second quarter of 2019, making it likely that the ECB will take action.

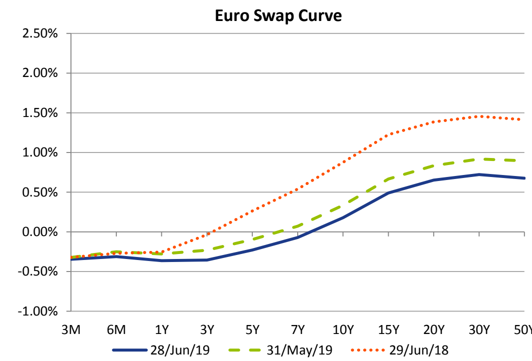
In June, British Prime Minister May stepped down after she failed to push her Brexit deal through the British parliament in May. Her successor will either be Boris Johnson or Jeremy Hunt. On July 22, the members of the British Conservative Party will elect their next party leader, and with it automatically the new Prime Minister of the UK. The new prime minister has the tough task to negotiate a new Brexit-deal with the European Union, one that will actually be adopted by the British parliament. If this does not happen before the current deadline (October 31), Boris Johnson aims for a hard Brexit, while Jeremy Hunt prefers to request a short extension of the current deal.

During the G20 summit in Osaka, US President Trump and Chinese President Xi Jingping agreed to continue negotiations on a new trade agreement. In addition, President Trump has indicated that as long as negotiations are ongoing, new import duties worth USD 300 billion will not be implemented. Other noteworthy news from the G20 summit is that Russia and Saudi Arabia reached on agreement to extend existing oil production restrictions by 6 to 9 months. In doing so, the countries are trying to stabilize falling oil prices as a result of rising US inventories and the global economic slowdown.

Upcoming publications of macroeconomic indicators

4 July 2019:	Inflation rate Netherlands
5 July 2019:	Unemployment US
9 July 2019:	Unemployment OECD
10 July 2019:	Trade balance UK
10 July 2019:	Inflation rate China
11 July 2019:	Inflation rate US





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

Currencies	28/Jun/19	31/May/19	29/Jun/18
EUR/USD	1.137	1.117	1.168
EUR/GBP	0.896	0.884	0.885
EUR/CHF	1.110	1.118	1.157
EUR/JPY	122.660	120.955	129.365
EUR/DKK	7.466	7.468	7.451
EUR/SEK	10.560	10.606	10.449
EUR/CAD	1.489	1.509	1.535
EUR/AUD	1.620	1.610	1.579
EUR/CNY	7.808	7.713	7.738