



Weekly Macro Review | w/c 14 May 2018

US Treasury Issues, Settlements and Fed Normalization

This week we'll see the mid-month rollover and roll-off of securities in the Fed SOMA.

There is a combination of last week's note and bond auctions settling on 15th and this week's bill auctions settling on 17th May – a total of \$176b to settle, of which \$36.8b is 'new money'.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	LY Offer Amt
14-18 May 2018	14-May-18	17-May-18	4wk bill	50			TBC
			3mth bill	48			Actual
			6mth bill	42			Actual
				140	137	3	
	8-May-18	15-May-18	3yr Note	31			Actual
	9-May-18	15-May-18	10yr Note	25			Actual
	10-May-18	15-May-18	30yr Bond	17			Actual
				73	39.11	33.89	
				213	176.11	36.89	19.29
							<i>additional Primary Dealer demand required?</i>
			Fed SOMA - Face Value of SOMA securities maturing 15 May 2018		26.228		
			Proportion of mthly cap (\$18b total May)		8.6		
			Amount to reinvest		17.60		

The current monthly cap of SOMA securities reduction is \$18b.

The total face value of SOMA securities maturing this month is \$54b. Of this, \$18b will not be reinvested (balance sheet reduction). This will be split over mid and end of month.

Week commencing 14 May: \$26.228 in SOMA securities will mature (data is available at https://www.newyorkfed.org/markets/soma/sysopen_accholdings.html and is also provided on the Treasury Direct auction announcements). Of that, \$8.6b will not be reinvested (balance sheet reduction). The remaining \$17.6 will be reinvested.

Monday 14 May 2018

China – money supply M2 and new loans

Via Reuters:

China Jan-April loan growth: actual 13.5% versus 7% year ago

New loans: actual 1.18 trln yuan vs expected of 1.1 trln yuan

M2 money supply: actual +8.3% annual, expected 8.5%

TSF: actual 1.56 trln yuan, vs 1.33 trln yuan in March

Shadow loans shrink in April as crackdown persists – China is in the third year of a regulatory push to reduce risks in the financial system that have been fuelled by a rapid build-up in debt

<https://www.reuters.com/article/china-economy-loans/update-1-china-april-new-loans-rise-to-1-18-trln-yuan-idUSL3N1SA2PX>

FOMC - Loretta Mester

<https://www.clevelandfed.org/newsroom-and-events/speeches/sp-20180514-issues-for-us-monetary-policy.aspx>

The speech focused on the current state of the US economy, price stability, maximum employment, the stance of monetary policy and the monetary policy framework. A few notable quotes regarding economic performance and monetary policy, reinforcing the view of 'gradual increases': -

“As the FOMC said in its May statement, the stance of monetary policy remains accommodative. Currently, one indicator that policy is accommodative is that the fed funds rate, adjusted for inflation, is negative even though the economic outlook is strong.”

“In its May statement, the FOMC also said it expects economic conditions will evolve in a manner that will warrant further gradual increases in the fed funds rate. In my view, the medium-run outlook supports the continued gradual removal of policy accommodation; it seems the best strategy for balancing the risks to both of our policy goals and avoiding a build-up of financial stability risks. We want to give inflation time to move back to goal, and I don't expect inflation to pick up sharply; this argues against a steep path.”

Tuesday 15 May 2018

Reserve Bank of Australia

Keynote speech by Guy Debelle, Deputy Governor of the RBA on The Outlook for the Australian Economy - <https://www.rba.gov.au/speeches/2018/sp-dg-2018-05-15-1.html>

An important point for the Aus economy and for financial stability is interest rates. The impact of increases in LIBOR on BBSW is important – any movement in rates is an important issue to watch for Australia given the high level of household debt.

“This is because the Australian banks raise some of their short-term funding in the US market to fund their \$A lending, so the rise in price there has led to a similar rise in the cost of short-term funding for the banks here; that is, a rise in BBSW.^[41] This increases the wholesale funding costs for the Australian banks, as well as increasing the costs for borrowers whose lending rates are priced off BBSW, which includes many corporates.”

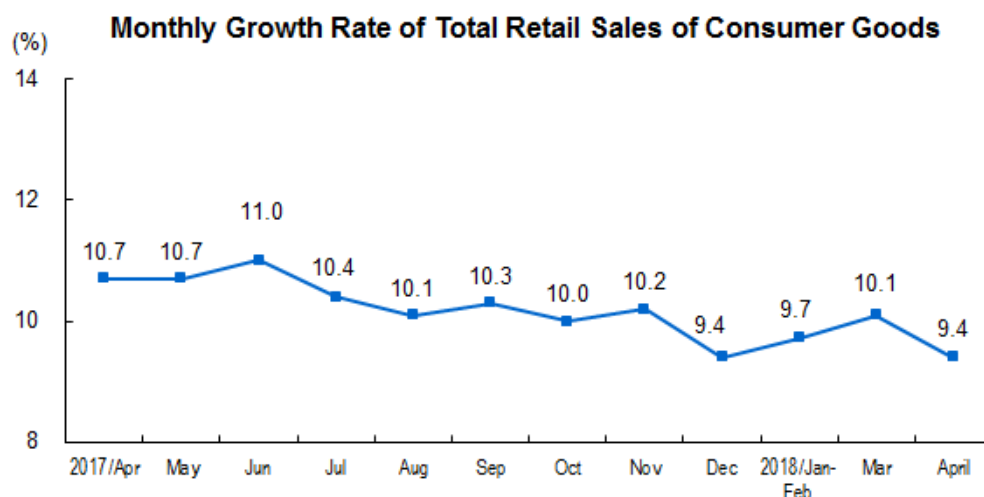
“However, the effect to date has not been that large in terms of the overall impact on bank funding costs. Thus far, it has not been a consequential development from a forecasting point of view. It is not clear how much of the rise in LIBOR (and hence BBSW) is due to structural changes in money markets and how much is temporary. In the last couple of weeks, these money market rates have declined noticeably from their peaks. We will continue to monitor how this unfolds in the period ahead.”

China – retail sales and industrial production

Retail sales came in lower than expected and lower than previous for April:

Expected +10%, Actual +9.4%, Prev +10.1%

The chart below provides an overview of the trend in the nominal retail sales growth rate to April 2018: -



Source: National Bureau of Statistic of China

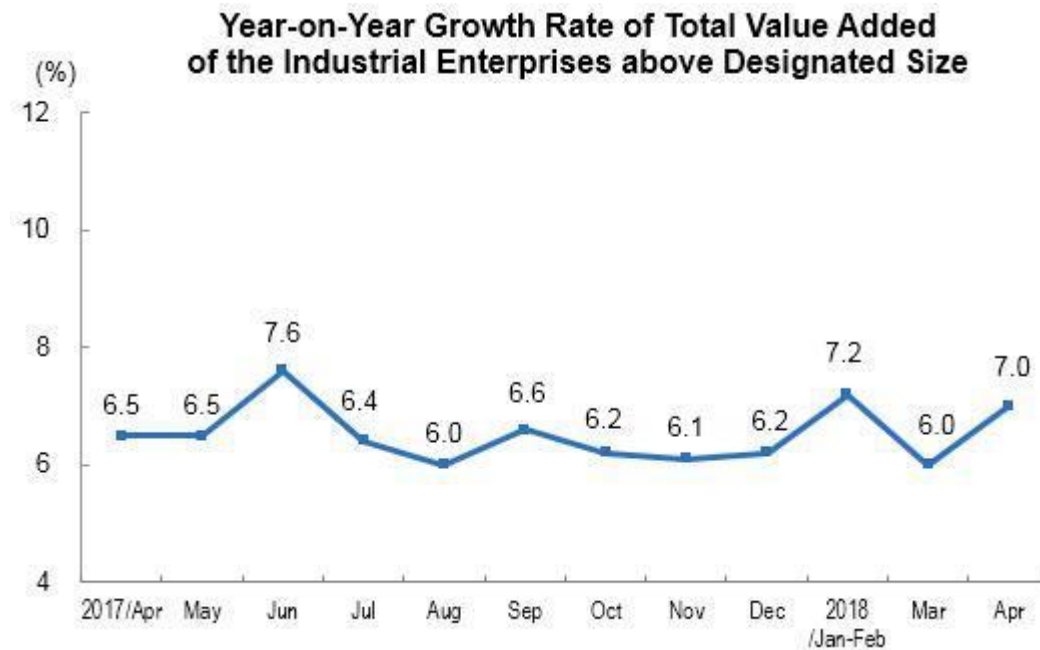
The full break down for April can be found at:

http://www.stats.gov.cn/english/pressrelease/201805/t20180516_1599725.html

China industrial production came in higher than expected and higher than previous for March:

Expected growth +6.3%, actual +7%, prev month +6%

Industrial production growth has been consistent over the last year: -



Source: National Bureau of Statistic of China

The full release can be read at:

http://www.stats.gov.cn/english/pressrelease/201805/t20180516_1599740.html

German GDP – Q1 prelim (headline)

Growth came in slightly lower than expected, and lower than Q4 (growth in Q3 and Q4 was relatively higher)

Q1 real GDP growth (seasonally adjusted, calendar adjusted):

Expected +0.4%, actual +0.3%, prev +0.6%

Annual real GDP growth at Q1 (seasonally adjusted, calendar adjusted):

Expected +2.4%, actual +2.3%, prev +2.9%

https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/NationalAccounts/DomesticProduct/Tables/Q_GDP.html;jsessionid=BD5A2A19E85DB78A97D1A3B4376D8C4.InternetLive1

Via Reuters: “growth in the first quarter was driven by domestic demand while trade (exports) was a drag”, “Investment rose sharply, with significantly more investment in construction, but also in equipment” and “Household spending rose slightly while state consumption fell.” <https://uk.reuters.com/article/uk-germany-economy-gdp/just-a-blip-german-growth-halves-in-first-quarter-on-weak-trade-idUKKCN1IG00C>

German Zew economic sentiment survey (May)

Consensus: -8, actual -8.2 (steady from month prior)

EU – GDP Q1 prelim

Euro Area (EA19) Group GDP growth slowed in Q1:

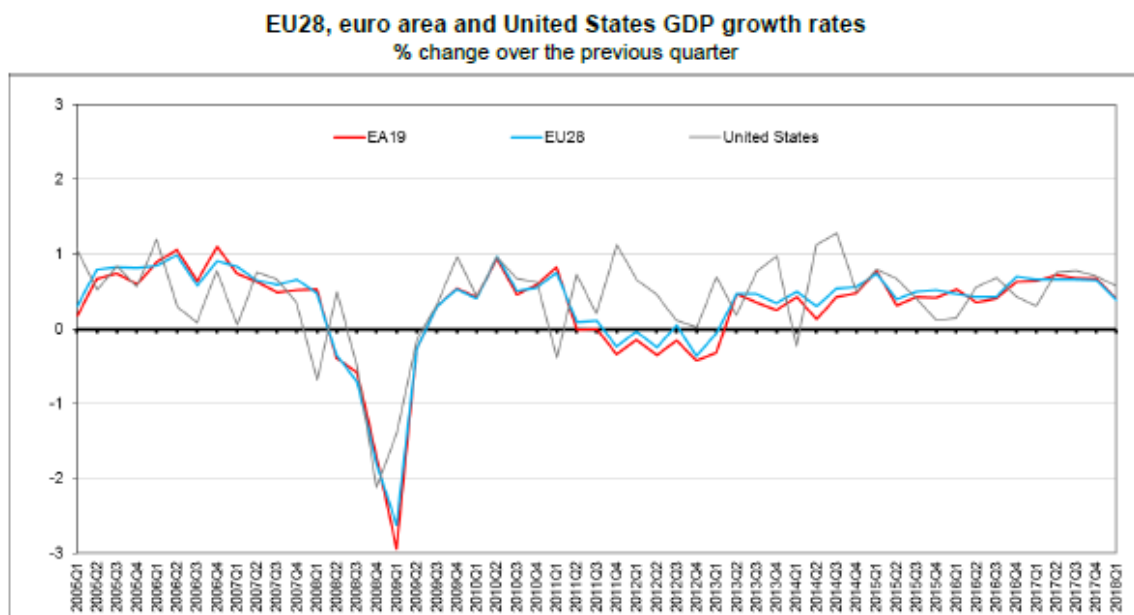
Actual Prelim Q1 +0.4%, prev +0.7% in Q4 2017

Annual GDP growth at Q1 +2.5%, prev +2.8% at Q4 2017

European Union (EU28) Group GDP growth also slowed in Q1:

Actual prelim Q1 0.4%, prev 0.6% in Q4 2017

Annual GDP growth Q1 +2.4%, prev 2.7% Q4 2017



<http://ec.europa.eu/eurostat/documents/2995521/8897618/2-15052018-BP-EN.pdf/defecccc-f9d9-4636-b7f8-d401357aca46>

EU industrial production

Growth in industrial production accelerated in March after several months of decline (between Dec and Feb).

Industrial production
% change compared with previous month*

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18
EA19						
Total industry	0.0	1.5	-0.1	-0.6	-0.9	0.5
Intermediate goods	0.2	0.7	1.1	-1.2	-0.9	-0.1
Energy	-1.2	2.6	0.7	-6.1	6.7	0.8
Capital goods	0.3	2.7	-1.8	0.5	-3.5	-0.6
Durable consumer goods	-1.7	1.7	1.8	-1.5	-1.6	1.5
Non-durable consumer goods	0.4	0.2	-0.1	0.7	-1.0	1.1
EU28						
Total industry	0.2	1.2	0.0	-0.4	-0.7	0.4
Intermediate goods	0.3	0.7	1.1	-0.9	-1.0	-0.3
Energy	-1.2	2.2	-0.9	-3.2	5.1	1.3
Capital goods	0.6	2.0	-1.2	0.8	-2.6	-0.2
Durable consumer goods	-1.5	1.3	1.7	-1.0	-1.3	1.3
Non-durable consumer goods	0.6	0.3	0.2	0.2	-0.8	0.8

The source dataset is available here.

<http://ec.europa.eu/eurostat/documents/2995521/8897638/4-15052018-AP-EN.pdf/0a5b6fac-04c7-40ca-84e6-fab0e92bf93e>

US Retail Sales (Advance, April)

Released On 5/15/2018 8:30:00 AM For Apr, 2018

	Prior	Prior Revised	Consensus	Consensus Range	Actual
Retail Sales - M/M change	0.6 %	0.8 %	0.3 %	0.1 % to 0.5 %	0.3 %
Retail Sales less autos - M/M change	0.2 %	0.4 %	0.5 %	0.3 % to 0.8 %	0.3 %
Less Autos & Gas - M/M Change	0.3 %	0.4 %	0.4 %	0.2 % to 0.5 %	0.3 %
Control Group - M/M change	0.4 %	0.5 %	0.4 %	0.3 % to 0.4 %	0.4 %

Retail growth from the prior month all revised higher

Advance retails sales for April headline: met consensus, but still came in lower than previous month (even before the upward revision).

Categories that made the largest contribution to growth in April were: buildings materials, food & bev, clothing & accessories, gasoline & non-store retailers. Growth was broad based across categories.

Auto's made a smaller contribution to growth in the latest month (compared to mth prior) – this seems to be the major difference between the two months. Auto's account for approx. 20% share of sales but accounted for only 7% of the growth in the latest month. In Mar auto's accounted for 72% of retail growth (possibly a rebound effect from Feb).

<https://www.census.gov/retail/index.html>

(US) NY Empire State Manufacturing Survey (May)

Headline current general business conditions index increased by 4pts to 20.1. See chart below – has stalled recently, just below near term highs.

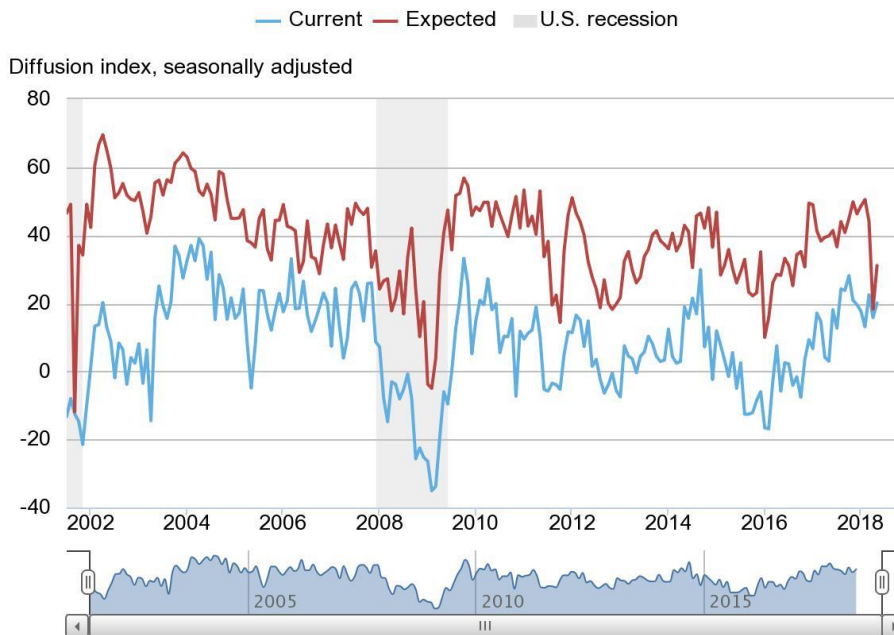
New orders index increased by 7pts to 16.0 and the shipments index was little changed at 19.1.

Delivery times continued to lengthen, and inventories moved higher (consistent with what we've seen in ISM).

The prices paid index rose to its highest level in several years - indicating input price increases, and the prices received index remained elevated.

The index for future business conditions, which fell to 18.3 in April after remaining above 40 for most of the past year and a half, regained thirteen points to reach 31.1 in May.

General Business Conditions



https://www.newyorkfed.org/survey/empire/empiresurvey_overview.html

Wednesday 16 May 2018

US Business Inventories

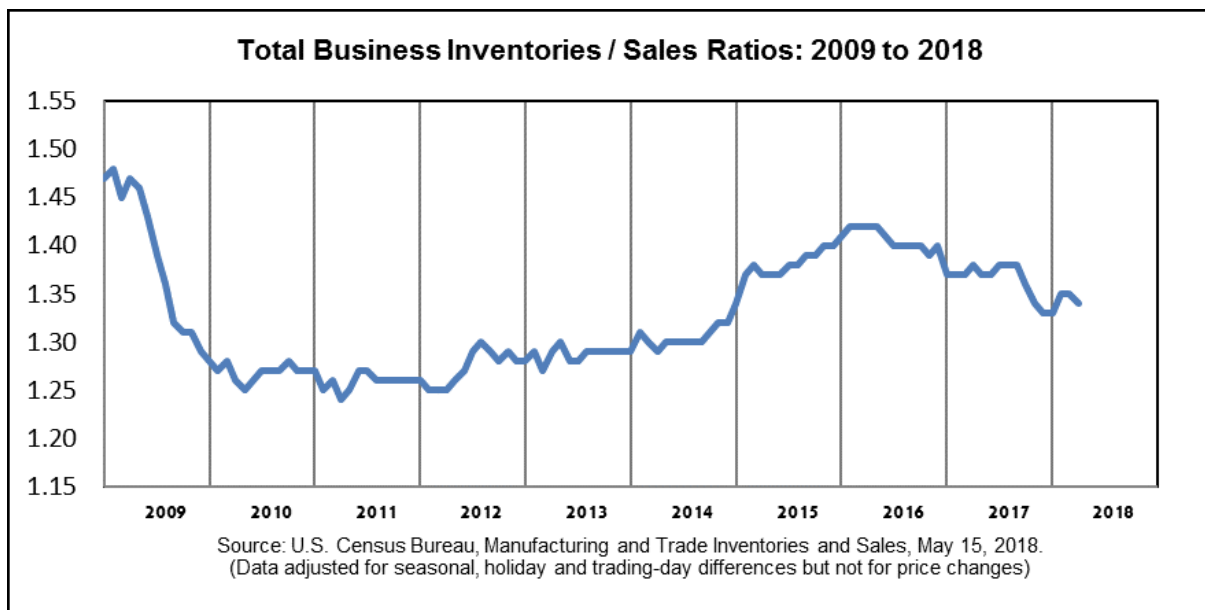
Released On 5/15/2018 10:00:00 AM For Mar, 2018

	Prior	Consensus	Consensus Range	Actual
Inventories - M/M change	0.6 %	0.2 %	0.1 % to 0.6 %	0.0 %

Inventories came in lower than expected and lower than prior with 0% growth in inventories. This will also feed into GDP revisions, which did get a boost from inventory growth.

Inventories to sales ratio fell again in the latest month – inventory growth was flat +0.0%, but sales were up +0.5%.

Inventory to sales has been trending down since the start of 2016 and currently sits at 1.34 (enough inventory to cover 1.34 months of sales).



https://www.census.gov/mtis/www/data/pdf/mtis_current.pdf

Japan – GDP Q1 prelim

GDP growth came in negative, lower than expected –

QoQ Q1 expected 0%, actual -0.2%, prev +0.4%

Annual – expected 0%, actual -0.6%, prev +0.6%

The largest negative contribution to GDP was from private demand at 0.2 percentage points, of which private residential investment (-0.1 percentage points) and change in private inventories (-0.1 percentage points). Net trade had a positive contribution of 0.1 percentage points. Public demand was neutral.

The biggest surprise from the release was the slight contraction of business investment

The quarterly GDP growth rate has been slowing for several quarters: -



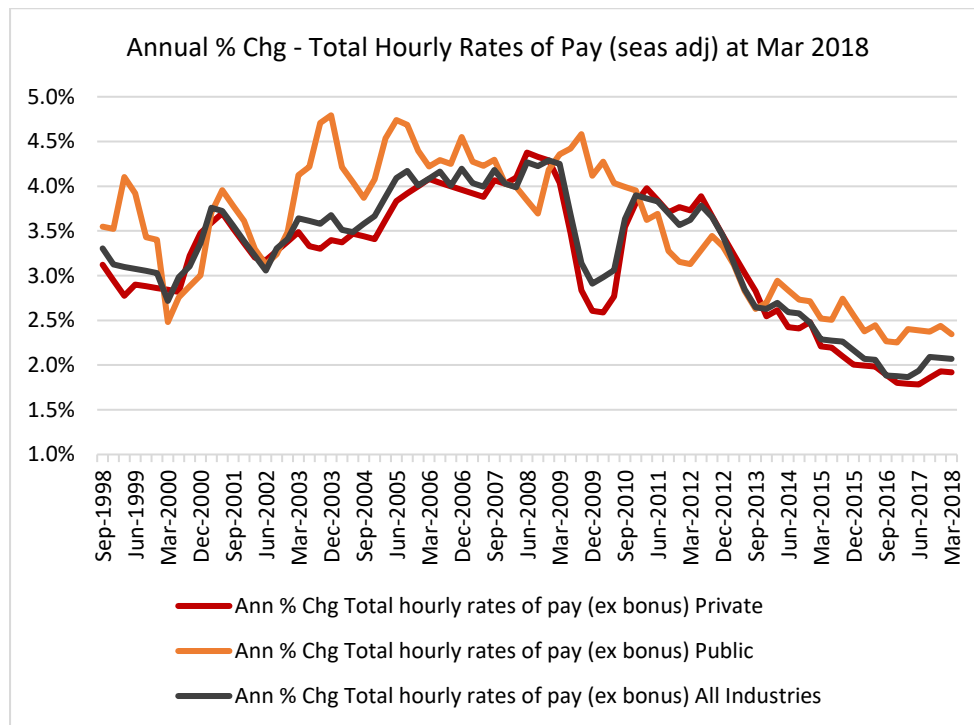
Aus – Wage Price Index Q1

Wage growth in Australia remains near all-time lows.

Quarterly growth in the WPI for All Industries was +0.47%, unchanged from the previous quarter of +0.47%.

Overall growth was led by public sector wage price index +0.54%.

Annual growth in the wage price index was unchanged at +2.1% and remains just above all-time lows.



Source: ABS, Mars Capital Partners

For the quarter real wages for the private sector declined – Aus core CPI (trimmed mean) +0.53%. On annual basis, real wages are barely growing: annual core CPI +1.91% v WPI growth +2.07%. Wage growth needs to exceed CPI in order to maintain disposable income due to taxation (even without bracket creep).

Japan – industrial production (Mar)

Came in higher than consensus – Expected +1.2%, actual +1.4%, prev +1.2%

Capacity utilization came in lower at +0.5% v +1.3% prev

2010 average=100

	Seasonally Adjusted Index		Original Index	
	index	Percent change from the previous month(%)	index	Percent change from the previous year (%)
Production	104.1	1.4	114.5	2.4
Shipments	101.5	1.2	115.5	1.4
Inventories	113.5	3.3	105.9	3.9
Inventory Ratio	117.1	2.7	99.0	5.5

<http://www.meti.go.jp/english/statistics/tyo/iip/index.html>

German CPI (Apr)

The data came in as expected: -

Month (calendar & seasonally adjusted): actual +0.2%, prev +0.2% (Mar)

Annual April: actual +1.46%, previous +1.56% (Mar)

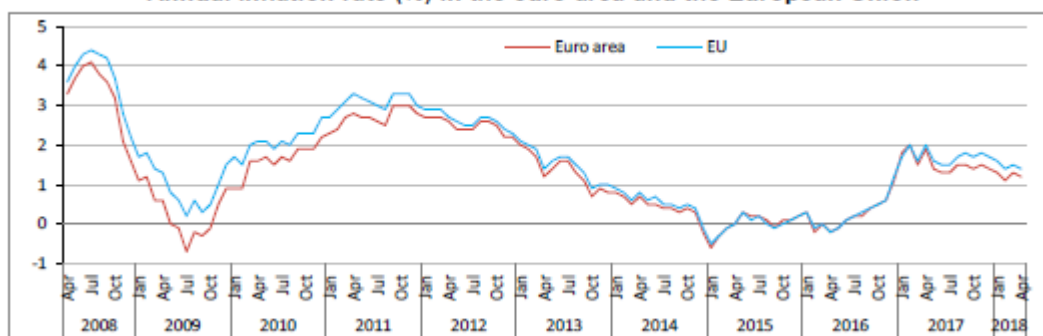
<https://www.destatis.de/EN/FactsFigures/Indicators/ShortTermIndicators/Prices/kpre510.html>

EU – CPI (Apr)

The Euro Area (EA) group CPI was lower in April +1.2% versus +1.3% in March and versus +1.9% a year ago.

European Union (EU) group CPI was +1.4% in April, down from +1.5% in March and down from +2% a year ago.

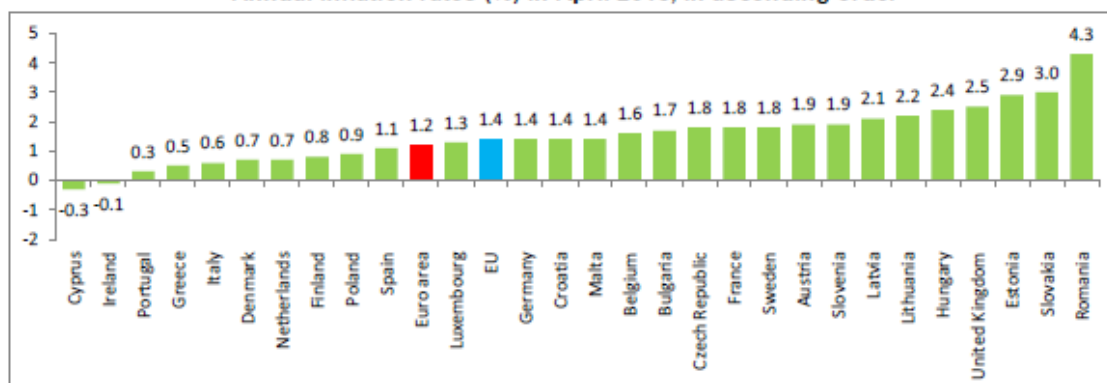
Annual inflation rate (%) in the euro area and the European Union



Pricing pressures have been easing in the EU & EA – good for consumers. But is well below the targets set by the ECB and appears to be drifting further away from the 2% target rate.

A rather interesting chart of inflation rates throughout Europe, especially the relatively lower inflation rates across the larger economies.

Annual inflation rates (%) in April 2018, in ascending order



Data for the United Kingdom are for March 2018.

<http://ec.europa.eu/eurostat/web/hicp/publications/news-releases>

US – industrial production and capacity utilization (Apr)

Released On 5/16/2018 9:15:00 AM For Apr, 2018

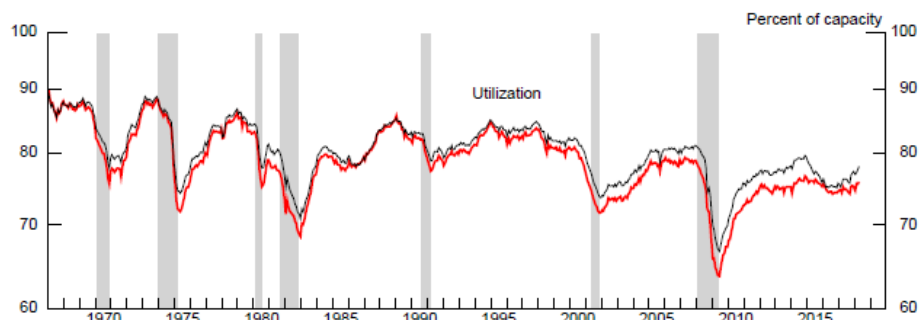
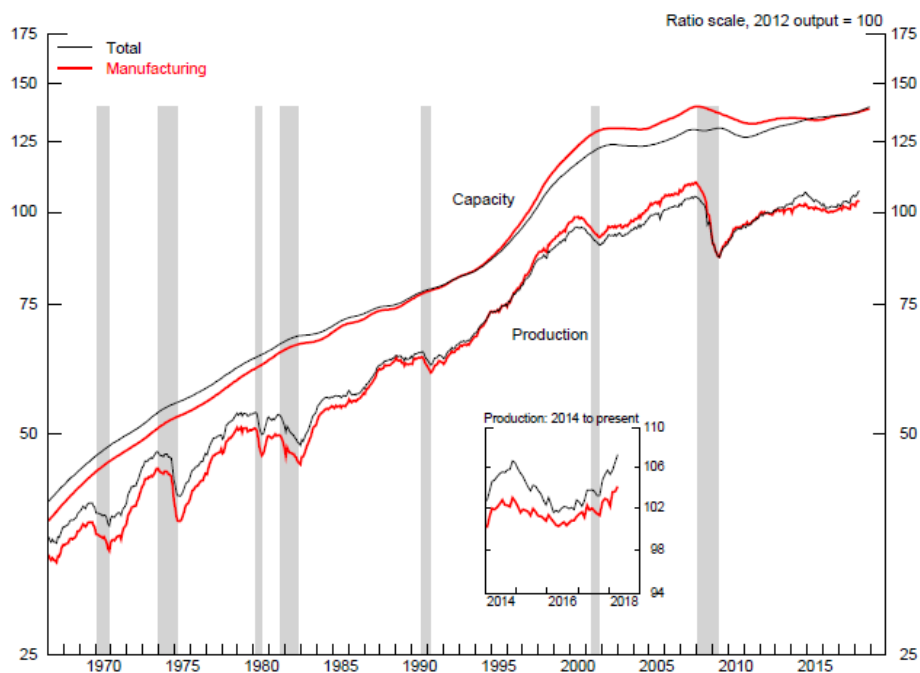
	Prior	Prior Revised	Consensus	Consensus Range	Actual
Production - M/M change	0.5 %	0.7 %	0.6 %	0.2 % to 0.9 %	0.7 %
Manufacturing - M/M	0.1 %	0.0 %	0.3 %	0.1 % to 1.0 %	0.5 %
Capacity Utilization Rate - Level	78.0 %	77.6 %	78.3 %	78.2 % to 78.5 %	78.0 %

Actual industrial production and manufacturing both beat consensus and were up/in-line on the prior month (incl revisions). Total industrial production continues to grow (see chart below).

Capacity utilization came in within the range and in line with the previous month. Capacity utilization continues to increase but is still well below that of historical levels (chart below).

The Federal Reserve's monthly index of industrial production and the related capacity indexes and capacity utilization rates cover manufacturing, mining, and electric and gas utilities. The industrial sector, together with construction, accounts for the bulk of the variation in national output over the course of the business cycle.

1. Industrial production, capacity, and utilization



<https://www.federalreserve.gov/Releases/g17/current/default.htm>

Thursday 17 May 2018

Japan – Machinery Orders (Mar)

Machinery order came in lower than expected;

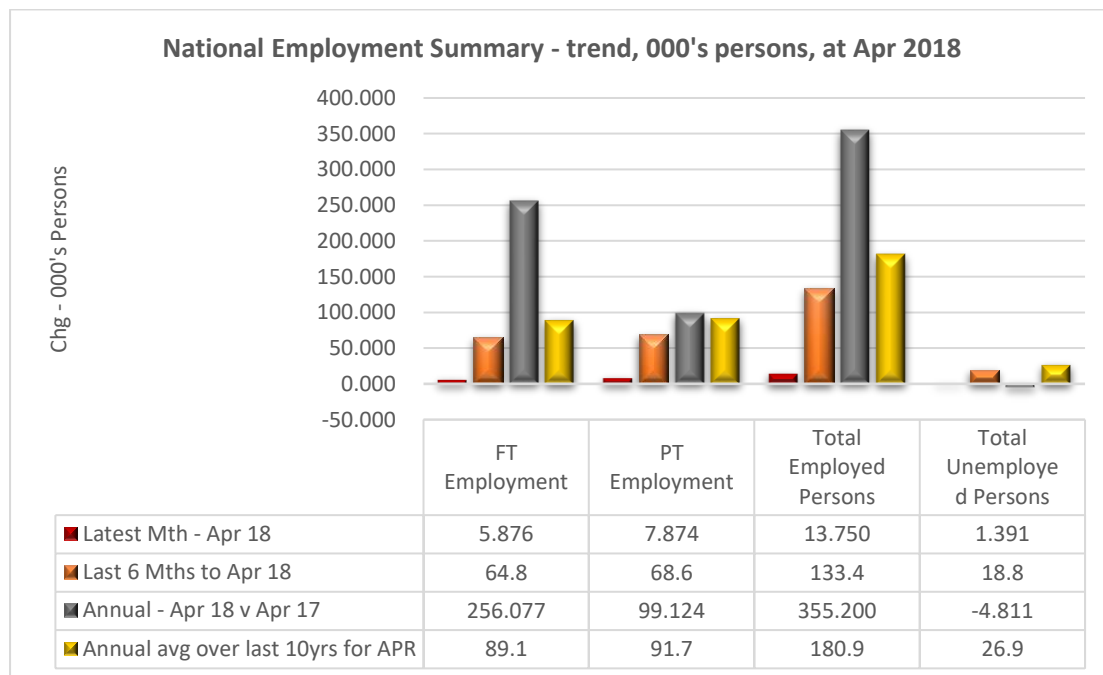
March; Expected -3%, actual -3.9%, prev +2.1%

Annual; Expected +0.3%, actual -2.4%, prev +2.4%

Australia – Labour market (Apr)

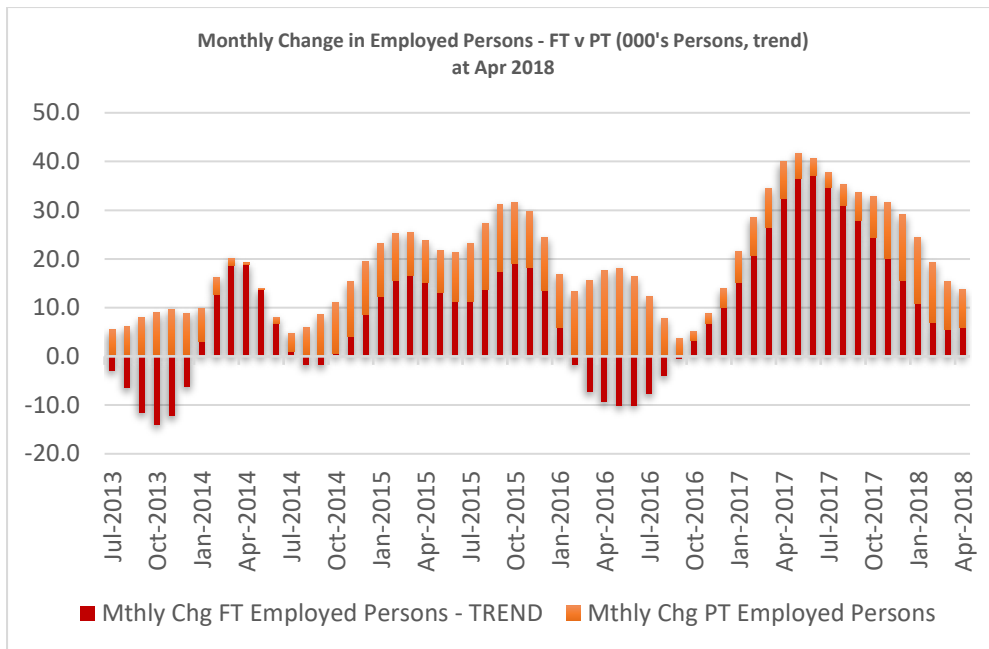
The data reported here uses trend data as recommended by the Aus Bureau of Stats (media reports seasonally adjusted).

Employment growth in Australia has been strong (esp over the last 2 years) – annual growth rates in FT employed persons and PT employed persons are well above the 10year average. This has not resulted in higher wage growth (see WPI data previous).



ABS & Mars Capital Partners Pty Ltd

The more recent trend for growth in employed persons has been slowing.



ABS & Mars Capital Partners Pty Ltd

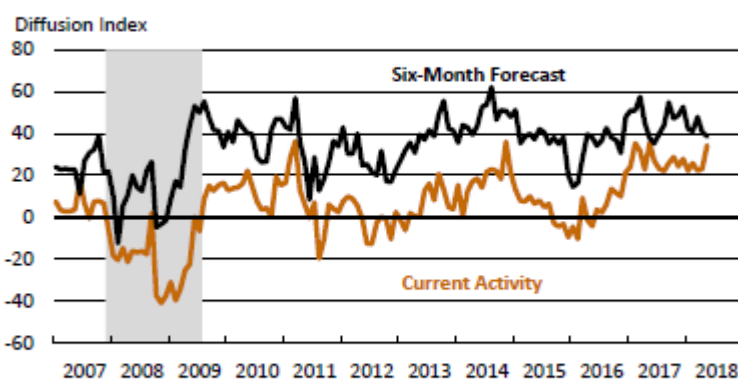
The unemployment rate for Aus has been sitting firmly at 5.5% for the last 9 months.

US – Philly Fed survey (May)

Improvement in headline current conditions – current activity +11pts in the month, close to recent highs for the region.

The 6mth forecast for future activity fell again in the latest month by -2pts – remains positive (expansion).

Chart 1. Current and Future General Activity Indexes
January 2007 to May 2018

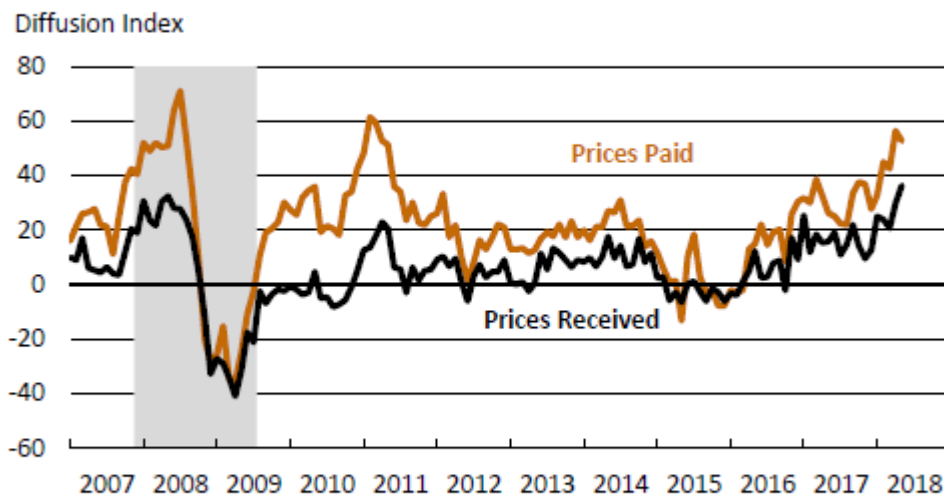


Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Prices paid has some interesting insights. Prices paid and prices received have both been increasing over the last several months – a possible sign that manufacturers

have been able to pass on price increases. The prices received index increased again in the latest month.

Chart 2. Current Prices Paid and Prices Received Indexes
January 2007 to May 2018



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The outlook has some interesting highlights (6mths from now versus May). The notable decline is in prices received – expectations for continuing to pass on price increases look like they moderate. This month, the prices received sub index moved from 47.9 down to 33.6. Last month 50.4 expected prices received to increase and 2.5 a decrease. This month (April) saw respondents move into the ‘no change’ column (55.1) and 36.1 expected prices received to increase and 2.5 expected a decrease.

At the same time, firms expect prices paid to continue to increase.

MANUFACTURING BUSINESS OUTLOOK SURVEY May 2018	May vs. April					Six Months from Now vs. May				
	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index	Previous Diffusion Index	Increase	No Change	Decrease	Diffusion Index
What is your evaluation of the level of general business activity?	23.2	43.2	47.8	8.8	34.4	40.7	48.3	30.1	9.6	38.7
Company Business Indicators										
New Orders	18.4	48.4	42.4	7.7	40.6	37.2	51.5	32.9	11.2	40.3
Shipments	23.9	38.9	47.9	13.1	25.8	47.9	58.6	25.1	11.8	46.8
Unfilled Orders	7.8	25.8	63.0	10.6	15.3	7.6	23.2	59.8	13.8	9.4
Delivery Times	20.7	24.3	69.2	5.8	18.5	9.6	15.8	70.3	8.3	7.5
Inventories	9.5	25.3	54.3	17.3	8.1	16.5	28.5	52.7	13.8	14.8
Prices Paid	56.4	54.6	42.7	2.0	52.6	66.8	63.8	32.9	0.4	63.4
Prices Received	29.8	36.4	63.6	0.0	36.4	47.9	36.1	55.1	2.5	33.6
Number of Employees	27.1	36.7	55.1	6.4	30.2	34.6	49.2	38.8	6.3	42.8
Average Employee Workweek	21.6	36.4	61.4	2.0	34.4	14.0	19.2	67.1	9.1	10.1
Capital Expenditures	--	--	--	--	--	29.8	30.9	54.7	9.2	21.6

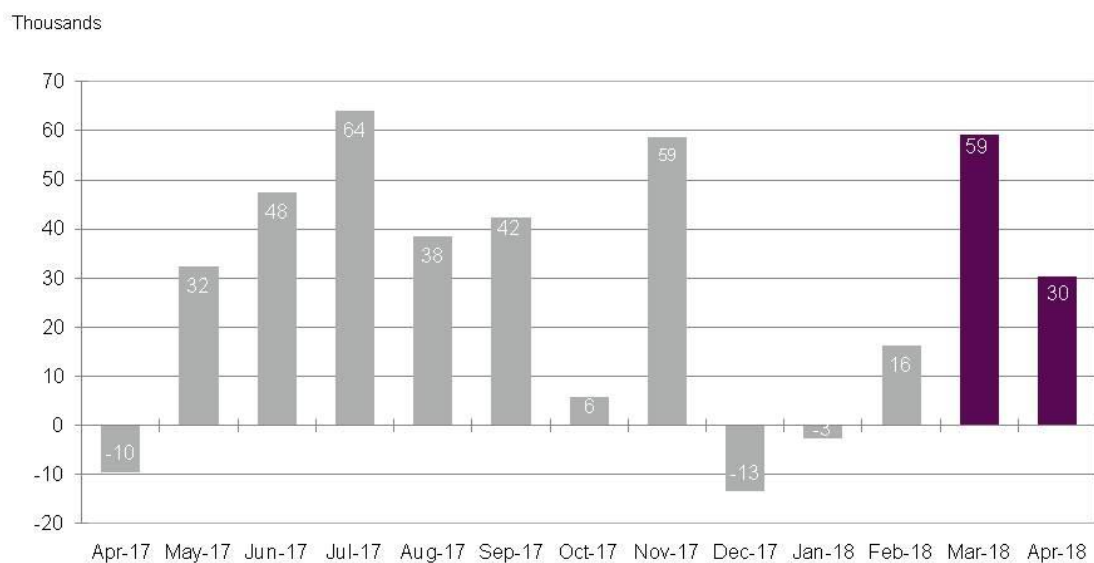
NOTES:
(1) Diffusion indexes represent the percentage indicating an increase minus the percentage indicating a decrease.
(2) All data are seasonally adjusted.
(3) Percentages may not sum to 100 percent because of rounding, omission by respondents, or both.
(4) Survey results reflect data received through May 15, 2018.

<https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2018/bos0518>

Canada – ADP employment change

Came in at +30.2k jobs in April. March was revised up from +42.8k to +59k.

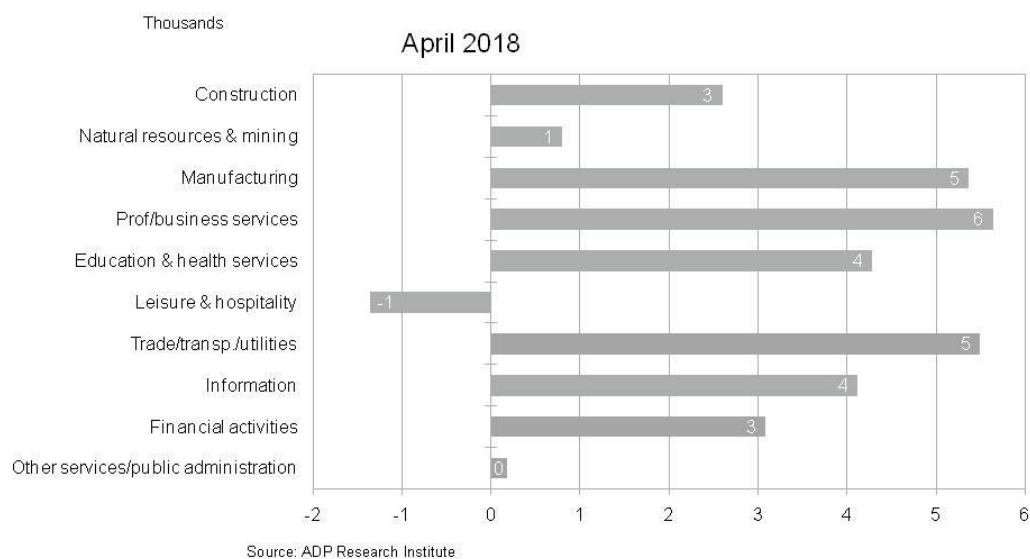
Chart 1. Change in Total Nonfarm Payroll Employment



Source: ADP Research Institute

Employment gains were made across most industries: -

Chart 3. Change in Nonfarm Payroll Employment by Industry



<https://www.adp.ca/en-ca/press-room/media-releases/2018/adp-canada-ner-april-2018.aspx>

Friday 18 May 2018

Japan – National CPI

CPI came in negative for the month across all measures, annual rates remain positive:

Table Japan, April 2018

	Weights	Index	Annual Change (%)	Monthly Change (%) (Seasonally adjusted)
All items	10000	100.9	0.6	-0.4
All items, less fresh food	9586	100.9	0.7	-0.1
All items, less fresh food and energy	8802	101.0	0.4	-0.1

Core CPI declined less than the headline number this month, but from an annual perspective continues to show lower underlying inflation pressure.

<http://www.stat.go.jp/english/data/cpi/1581-z.html>

Headline annual inflation has slowed over the last two months:



German – PPI

Higher than forecast:

Expected 0.3%, actual 0.5%, previous 0.1%.

Canada – Retail Sales

Headline retail sales for Mar higher than expected and high than Feb:

Expected +0.3%, Actual +0.6%, prior +0.5% (revised up from +0.4%)

Retail Sales Ex-Auto missed expectations and was below prior month:

Expected +0.5%, actual -0.2%, prior 0%

Canada – CPI

<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/cpis01a-eng.htm>

Headline CPI +0.3% for April and +2.2% yoy

Energy costs are contributing to headline; CPI ex energy +0% for mth and +1.9% yoy.

Measures of annual core inflation have been strengthening – annual trimmed mean +2.1% in April versus +2% in March and +1.9% Dec 2017.

The Bank of Canada increased its benchmark rate in Jan 2018.

Other

China trade negotiations

Talks in Washington underway this week with Chinese officials

Despite denials by Chinese officials, US claims that China has offered a package that cuts the US trade deficit with China by \$200b.

https://www.reuters.com/article/us-usa-trade-china/china-denies-it-offered-package-to-slash-u-s-trade-gap-by-200-billion-idUSKCN1J0A0?feedType=RSS&feedName=businessNews&utm_source=Twitter&utm_medium=Social&utm_campaign=Feed%3A+reuters%2FbusinessNews+%28Business+News%29

NAFTA still unresolved

Temporary tariff exemptions extended to 1st June 2018

US Mid-terms

Venezuela Election – 20th May 2018

Italian Election (Mar 18) – it's been two months since the election

From The Guardian: - Over 50% of voters backed two outsider parties, the anti-establishment Five Star Movement (M5S) and the far-right League. Over two months later, the pair are on the verge of forming a coalition government that could break decisively with the centrist policies that went before.

“considerable steps forward” have been made on a policy programme, with agreement on issues such as tougher laws on immigration, reform of pensions, a flat tax and a universal basic income.

The (PM) candidate is likely to be someone who will heed Mattarella's (Italian President) thinly disguised warning to the coalition on Thursday against retreating from Europe. M5S has softened its stance on the EU, saying it would like to open discussions on “some treaties” rather than pull Italy out, while Salvini has said he wants to “defend Italy” within the bloc.

<https://www.theguardian.com/world/2018/may/12/italy-m5s-league-verge-forming-coalition-government>

Now watching the spike in the Italian bond rates as the two elected parties have outlined spending increases and watered down some of their original election proposals.