MARS
CAPITAL PARTNERS

Weekly Macro Review | w/c 21 May 2018

Key Themes

- FOMC – Signalling on rates from minutes & speeches this week
  - No additional rate hikes this year (expect two, rather than three more rate increases), Fed outlook and policy stance hasn't changed
  - Most speeches this week reinforced that Fed will tolerate inflation above 2% for a time
  - Econ data tracking in line; no reason to think performance above/below expectations
  - Key considerations: inflation just reaching 2% now, continued wage growth, some business uncertainty with regard to trade, shape of the yield curve (future growth expectations "sluggish")
  - Neutral rate: somewhere between 2.25-2.75%. Several speeches highlighted moving to that level and then seeing how the economy develops
- US data – PMI, regional survey's and durable goods (ex-transport) showing continued expansion. A key theme is rising cost price pressures, some optimism about ability to pass higher costs on.
- Europe – German and European PMI's continued to slow (expanding at a lower rate), ECB remaining accommodative, core inflation still subdued and has not shown an upward trend yet. Brexit and trade uncertainties.
- UK – slower GDP growth, flat retail sales, inflation moderating (positive), BoE concerned about Brexit, remaining accommodative.
- Asia – Japan: Tokyo Inflation continues to moderate, inline with slowing inflation and growth

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US Treasury Issuance, Settlements & Fed Normalization

FED Holdings in SOMA - This month (May), $54.71b of the Fed's holdings of US Treasury securities will mature (at mid-month and end of month). Of this total, and as a part of the balance sheet normalization process, the current monthly cap on the reduction of the Fed's holdings is $18b. The $18b reduction of holdings is split between mid-month (last week -$8.6b) and end of month (next week -$9.4b).

US Treasury - This week will see bill and note auctions of $275b, with settlement of $176b on 24th May. A total of $24b in 'new money' to be raised this week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B
21-25 May 2018	21-May	24-May	4wk bill	45		*announced*
			3mth bill	48		*announced*
			6mth bill	42		*announced*
			12mth bill	26		*announced*
				161	152	9
	24-May-18	26-May-18	2yr FRN	15	0	15
				176	**152**	**24**

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B
28 May - 1 Jun 20	28-May-18	31-May-18	4wk bill	45		*TBA*
			3mth bill	45		*TBA*
			6mth bill	42		*TBA*
				132	132	0
	17-May-18	31-May-18	10yr TIPS (r/o)	11		*results*
	22-May-18	31-May-18	2yr Note	33		*announced*
	23-May-18	31-May-18	5yr Note	36		*announced*
	24-May-18	31-May-18	7yr Note	30		*announced*
				110	70.59	39.41
				242	**202.59**	**39.41**
Fed SOMA - Face Value of SOMA securities maturing 31 May 2018					28.479	
	Proportion of mthly cap ($18b total May)				9.37	
			Amount to reinvest		19.11	

A key date to watch next week is 31 May 2018 – with settlement of $242b in note and bill auctions, $39b in 'new money' to be raised and SOMA holdings of $28.479 maturing ($19.1b reinvested, and $9.4b in reduction of holdings).

Data is available at https://www.newyorkfed.org/markets/soma/sysopen_accholdings.html and the face value of maturing securities (in Fed SOMA) is also provided on the Treasury Direct auction announcements.

Monday 21 May 2018

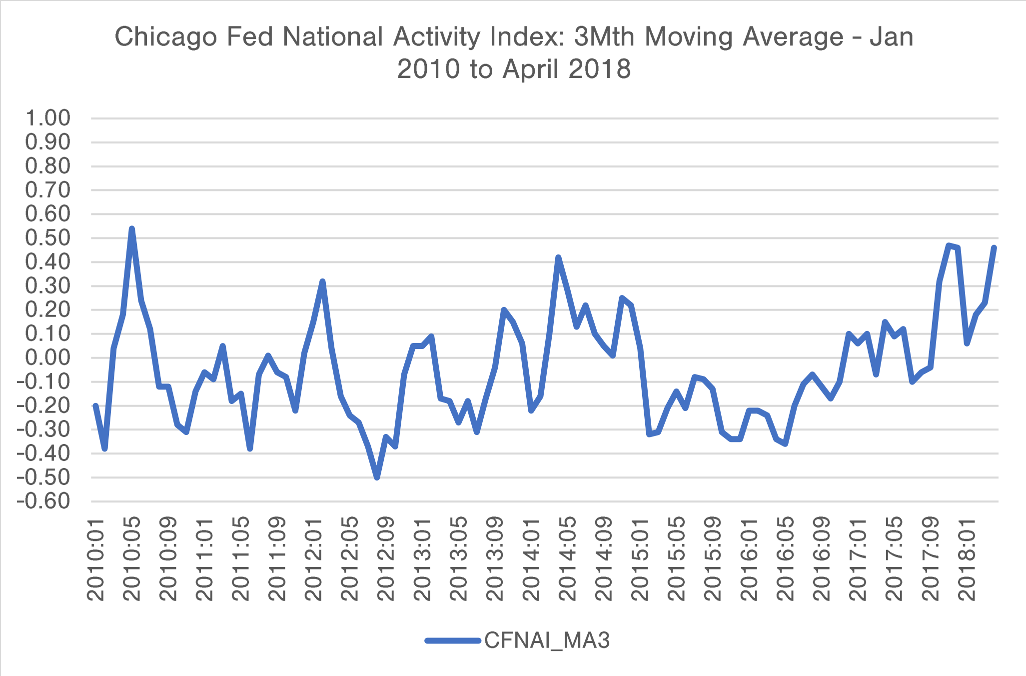
Chicago Fed National Activity Index (Apr)

In the latest month, activity continued to grow above trend, but still at a modest pace:

April +0.34 versus March +0.32

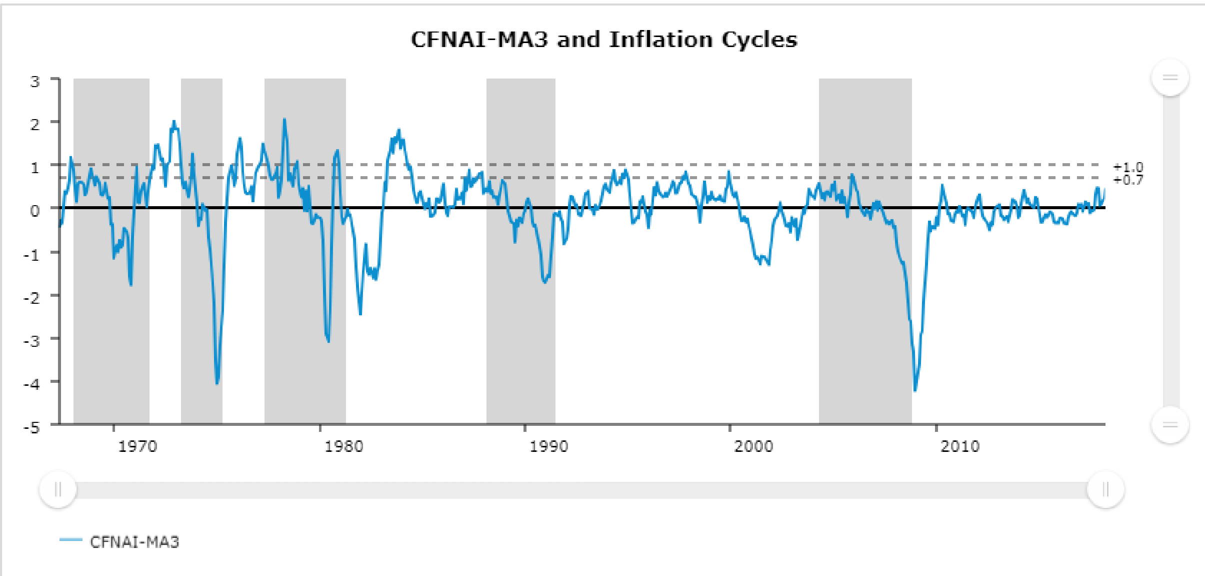
The 3month moving average has moved up to +0.46 (cycling over the negative read for Jan) and shows sustained growth in activity.

The current 3mth moving average is approaching recent highs again (expanding) but is still below levels historically associated with periods of 'sustained inflation'.



Source: Chicago Fed

"An increasing likelihood of a period of sustained increasing inflation has historically been associated with values of the CFNAI-MA3 **above +0.70 more than two years into an economic expansion**. Similarly, a substantial likelihood of a period of sustained increasing inflation has historically been associated with values of the CFNAI-MA3 above +1.00 more than two years into an economic expansion."



Source: Chicago Fed

https://www.chicagofed.org/research/data/cfnai/current-data

FOMC/US Fed Speeches:

Patrick Harker (President Philadelphia Fed) – Via Reuters:

"Harker, a centrist at the U.S. central bank, said that while he currently sees two more rate rises this year, after an initial policy-tightening in March, **"it is possible that we see an acceleration of inflation that I could be supportive of a third" rise**."

"Inflation "does seem to be moving toward 2 percent … and there is not much slack in the labor markets, so I think it's appropriate to continue to move rates up judiciously.""

Back in February, Harker had been supportive of two hikes.

https://www.reuters.com/article/us-usa-fed-harker/harker-could-back-3-more-fed-rate-hikes-in-face-of-u-s-inflation-idUSKCN1IM254

Raphael Bostic (President and CEO of Fed Reserve Bank of Atlanta) -

Interesting speech regarding the role of price level targeting as a future framework for monetary policy. For the moment, the Fed is "as close as it has ever been over this expansion" to meeting its dual mandate.

"There is now a widespread belief that, once monetary policy has fully normalized, the federal funds rate—the FOMC's reference policy rate—will settle at a level significantly below historical norms." In other words, leaving little room to cut the benchmark rate in a crisis – supports a shift to 'some form' of flex price targeting.

https://www.frbatlanta.org/news/speeches/2018/05/21-bostic-views-on-the-economy-and-price-level-targeting

Neel Kashkari (President, Minneapolis Fed):

1) **Town Hall meeting** https://minneapolisfed.org/news-and-events/conversations-with-the-fed/town-hall-with-mpls-fed-president-neel-kashkari-in-escanaba-mi-video?sc_camp=16C883BC3D314E2E899021FBD04A7AF9
2) **Op-ed in the WSJ** (https://minneapolisfed.org/news-and-events/messages/wsj-op-ed)
3) **Op-ed in FT** (https://minneapolisfed.org/news-and-events/messages/financial-times-op-ed) – (important) acknowledgement regarding the employment to population ratio as a measure of labour market 'slack', believes that it implies that he labour market not at full employment. **Policy stance should return to neutral until 'we see evidence that wages are climbing and that we really are at maximum employment"**

Tuesday 22 May 2018

<u>UK – Inflation report hearings</u>

Overall inflation is expected to hold steady compared to the previous period at 2.5% while core inflation is expected to contract slightly from 2.3% to 2.2%.

At the last policy meeting, the BoE kept rates on hold amid signs of slower growth.

<u>Gertjan Vlieghe speech</u> – "My own central projection will require one or two quarter point rate increases per year over the three-year forecast period". The May Inflation Report forecast assumes just under three quarter point rate increases over the three-year forecast period.

The outlook is still clouded by Brexit – so while there is slightly more optimism from Vlieghe on rate hikes, there is still a lot of uncertainty around the forecasts.

UK growth expected to pick up after a sharp drop in Q1 GDP, domestic risks to demand growth are Brexit related, looking for a decline in the inflation rate as weak currency effects fade. "As inflation falls back, and wage growth improves somewhat due to reduced labour market slack, household real income growth is set to pick up this year. That should support consumption growth"

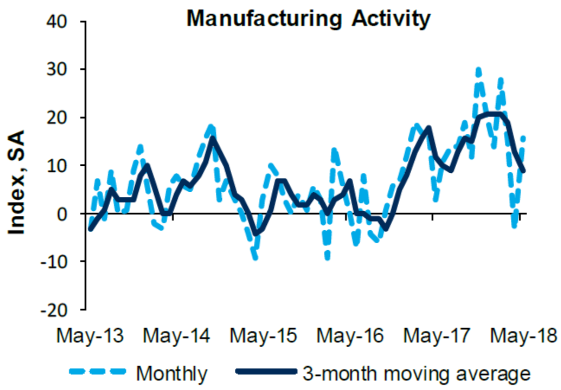
http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/reappointment-of-dr-gertjan-vlieghe-to-the-bank-of-england-monetary-policy-committee/written/83255.pdf

<u>US Richmond Fed – Manufacturing Index (May)</u>

May Index +16, prior month Apr Index -3

A rebound in the current after weakness in prior months. Has followed the pattern of expansion seen in Philly Fed survey and "expected conditions" in the NY Empire State Mfg survey for May (last week).

Stronger across most sub-indexes, especially prices received and prices paid.



https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2018/pdf/mfg_05_22_18.pdf

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Wednesday 23 May 2018

<u>Europe</u>

German – Q1 GDP (detailed results)

Initially released w/c 14 May – this is just further detail

https://www.destatis.de/EN/PressServices/Press/pr/2018/05/PE18_182_811.html

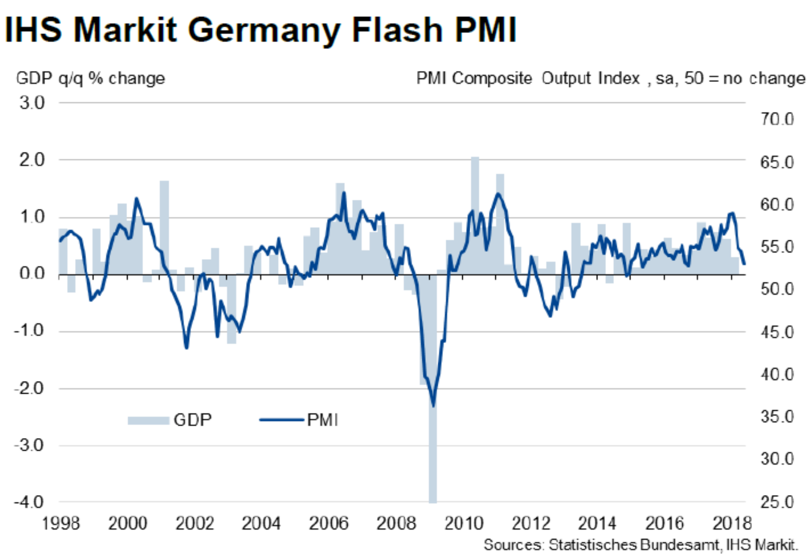
Germany PMI (prelim) May

The slower rate of expansion in private sector business activity continued into May;

- Manufacturing PMI May +56.8 v Apr +58.1 – now a 15mth low
- Services PMI also continued to slow; May +52.1 v Apr +53 – now a 20mth low

Comments about how cost pressures picking up (linked to oil prices) and ability to pass them on (factory gate charges) has been easing.

The composite output index pointing to potentially further slower GDP growth in Q2: -



https://www.markiteconomics.com/Survey/PressRelease.mvc/8094c7151ae94a388b1ce24c8f1abfec?hootPostID=55f5d4ab450d35c5bd579a946f937458

EU PMI (prelim) May

Business activity throughout the Eurozone continued to expand, but at a slower rate.

Eurozone composite output index for May +54.1 versus April +55.1.

Similar comments regarding cost price pressures and less ability to pass on these costs. Highlights around Germany and France as the drivers of slower growth, as the rest of the Eurozone accelerated to a 3mth high.

The trend of PMI is highlighting continued slower growth in Q2.

https://www.markiteconomics.com/Survey/PressRelease.mvc/286f472955b847b8b4c28e5028c4bf15

Consumer Confidence (prelim) May – this came in broadly unchanged and remains close to it highs. Yet, the latest Eurozone PMI flash (May) highlighted that companies have become less optimistic – higher costs, lower ability to pass them on, lower new business growth.

Australia

RBA Governor Phillip Lowe speech – Australia's Deepening Economic relationship with China: Opps & Risks

A timely speech given that the relationship between China and Australia has been strained of late. The Australia government has started to develop stronger foreign interference laws as our PM has cited 'disturbing reports about Chinese influence'.

The RBA speech is in two parts.

1) The economic relationship between Aus & China and growing export industries beyond just resources (services incl education, tourism, manufactured foods and transport, RE and other).

2) The Chinese financial system – acknowledging our deep economic interdependence, the RBA goes into some detail about the build-up of risk in the Chinese financial system, namely, bad loans made to corporates and the growth of shadow banking.

This is a key quote:

"the (Chinese) leadership called for a gradual reduction in the debt-to-GDP ratio"

A huge task that has huge implications for Australia and trade outcomes with China. As of 2016/7, China accounted for 30% of Aus exports (Source: Austrade).

https://www.rba.gov.au/speeches/2018/sp-gov-2018-05-23.html

United Kingdom

UK CPI (April)

CPI including owner occupiers' housing costs (CPIH) annual rate;
Apr +2.2% versus Mar +2.3%. Recent peak was +2.8% (currency related).

Similarly, CPI annual growth also slowed slightly in April; +2.4% Apr versus +2.5% Mar.

Core CPI – ex Food, Energy, alcohol & Tobacco annual growth also slowed: Apr +2.1% v Mar 2.3%.

OOH measures Owner Occupier Housing costs and is the main difference between CPIH and CPI measures of UK consumer prices.

UK

Figure 1: CPIH, OOH component and CPI 12-month rates for the last 10 years: April 2008 to April 2018

UK

Source: Office for National Statistics

See Gertjan Vlieghe speech earlier this week - lower CPI is seen as contributing to improvements in real income and spending (along with continued improvements in labour market and wages)

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2018

United States

FOMC Minutes (May meeting)

No change in the outlook for rates from the Fed. The Fed is looking for inflation to reach 2% and stay there for a sustained period, with equal time above and below this level ('symmetric') before they consider raising rates faster. Inflation just at 2% now and current activity isn't suggesting that it is accelerating beyond performance expectations.

An important quote:

"That said, it was noted that it was premature to conclude that inflation would remain at levels around 2 percent, especially after several years in which inflation had persistently run below the Committee's 2 percent objective."

Wage growth was highlighted as being slower than what would be expected given the unemployment rate/growth/inflation levels.

Over the last few weeks the FFR probabilities had started reflecting the possibility of four hikes for the year. After today's minutes though, the probabilities are now pointing to 3 hikes (total) for the year reaching 2-2.25% by the Dec 19 meeting – this is as expected and is what has been telegraphed by the Fed all along.

Expecting some technical changes to how monetary policy is implemented at the next meeting (June) – adjustments to be made to setting the interest on excess reserves (managing the upper band of the FFR range).

US PMI (prelim) May

Continued expansion through May;

Composite output index May +55.7 versus April +54.9.

Services growth was likely the key driver of the overall increase, while manufacturing production still increased, but at a slower rate than April. Continued growth across most subindexes, including business optimism.

The consistent theme across the PMI's (and the localised Fed surveys from last week) is cost input price pressures. The difference in the US release is that prices charged by manufacturing companies continued "to rise at the strongest rate since June 2011".

The continued pick up in US Manufacturing will be important. Last week's industrial production data (US Federal Reserve) highlighted that Manufacturing recorded the slowest growth of all major industry groups – with Mining leading the growth over the last year: -

Industrial production *Seasonally adjusted*	**Percent change Apr 18 v Apr 17**
Total index	3.5
Previous estimates	
Major market groups	
Final Products	2.8
Consumer goods	3.4
Business equipment	1.3
Nonindustrial supplies	1.6
Construction	2.5
Materials	4.6
Major industry groups	
Manufacturing (see note below)	1.8
Previous estimates	
Mining	10.6
Utilities	6

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

Neel Kashkari speech

Outlook for U.S. Monetary Policy & Implications on Energy Sector
https://www.minneapolisfed.org/news-and-events/presidents-speeches/outlook-for-us-monetary-policy-implications-on-energy-sector

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Thursday 24 May 2018

United Kingdom

BoE's Carney speech – "Guidance, Contingencies and Brexit"

The upshot - Brexit could still be a problem – there is no certainty or direction about the path of Brexit at this stage and the BoE will keep MP accommodative.

The uncertainty that remains is still potentially impacting spending and investment decisions. The BoE is keeping policy accommodative ("gradual and limited" guidance) to support growth in the meantime. The MPC has looked through the currency driven inflation in order to support jobs and activity (reduce spare capacity) in the economy since the referendum.

Orderly or disorderly Brexit? A few important quotes: -

The MPC central forecast assumes a smooth transition. "In this case, the Committee's reaction function will become conventional again, with the path of policy driven primarily by demand" (pg 15). In other words driven more by inflationary pressures.

"As the MPC has stressed, were the economy to develop broadly in line with the May Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to its target at a conventional horizon."

If Brexit becomes disorderly, the bank would "again be confronted by a trade-off between the speed with which it returns inflation to target and the support policy provides to jobs and activity". The MPC would set policy using the framework it applied during the referendum – the trade-off made depending on how measures of spare capacity and inflation.

"Consistent with its remit, the MPC has judged that it has been appropriate to set policy so that inflation returned to its target over a longer period than the conventional horizon of 18-24 months **in order to support jobs and activity** at a time when uncertainty was elevated and the economy was slowing." (page 11 along with Chart 6).

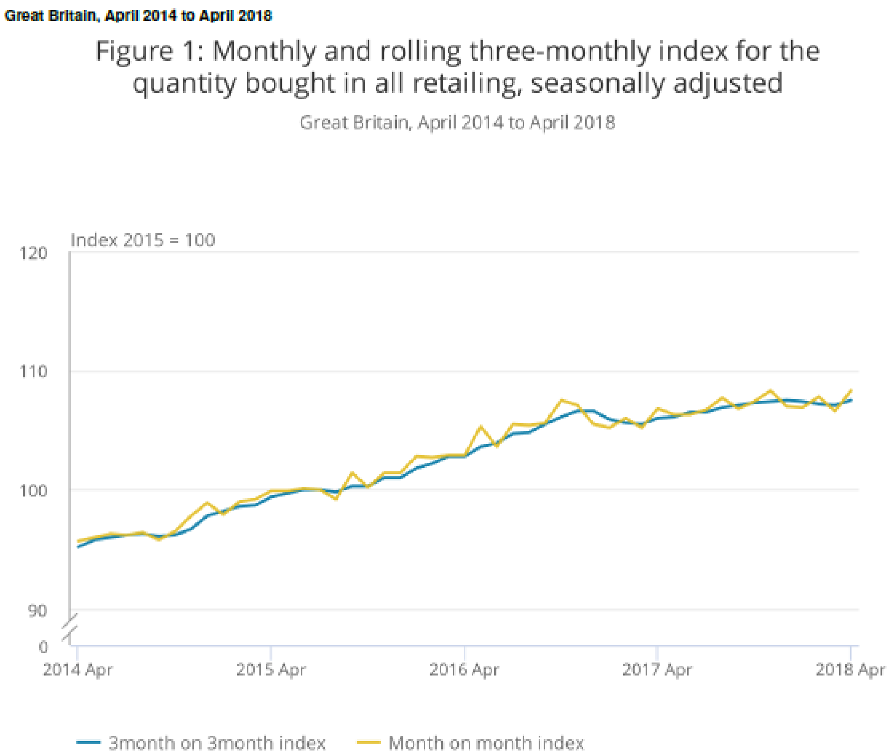
https://www.bankofengland.co.uk/speech/2018/mark-carney-society-of-professional-economists-annual-dinner

UK Retail Sales (first est) Apr

The monthly growth bounced back, but the 3mth trend is broadly unchanged in volume growth terms.

Volume of sales - 3mths to April +0.1% versus 3mths prior. The current annual rate as of the latest 3mth period +1.4%.

The trajectory of retail sales growth has changed since early 2017 – a slower rate of growth compared to the several years leading up the start of 2017.



Source: Monthly Business Survey - Retail Sales Inquiry - Office for National Statistics

https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/april2018

United States

Fed's Dudley speech – The Transition to a Robust Reference Rate Regime
Remarks at Bank of England's Markets Forum 2018, London, England

No comments in official remarks regarding rate signalling. He has recently said 3, possibly 4 hikes this year, but as long as inflation remains low, rate increases will be gradual.

Speech was regarding reference rate reform in the US. Secured Overnight Financing Rate, or SOFR, as its preferred alternative to U.S.-dollar LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight using U.S. Treasury securities as collateral and is thus relevant to a wide range of market participants.

"no guarantee that LIBOR will continue to exist beyond December 2021. In my view, LIBOR is likely to go away—and it should, because it is not supported by a sufficiently robust regime."

https://www.newyorkfed.org/newsevents/speeches/2018/dud180524

Kansas Fed Manufacturing Activity (May)

A very strong read with the composite index reaching all time highs for the second month in a row (all data seas adjusted): -

May Actual Index +29 versus April Index +26. The reading at May 2017 was +9.

A strong month across a range of sub-indexes also – especially production;

May +41 from April +33 (May 2017 was +1)

On the theme of prices paid versus prices received:

Prices received dropped back for the month (remains at an elevated level) May +22 versus +29 April (May 17 was +8)

Prices paid remained elevated – May +53 versus April +52 (May 2017 was +19)

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2018/2018may24mfg.pdf?la=en

FOMC Harker – CNBC Interview

Harker again signalling that if he saw evidence of accelerating inflation, he would consider a fourth rate hike this year.

In the same breath, he would consider letting inflation run above 2% (without an additional hike) but it would depend on conditions – how far & fast prices were accelerating.

https://www.cnbc.com/2018/05/24/fed-could-be-finished-hiking-rates-by-2019-philadelphias-harker-says.html

Raphael Bostic – Interview on CNBC

No quick movement to a new trajectory – he is seeing business uncertainty, "wait and see what happens" (tariffs, trade negotiations)

3 hikes this year – comfortable with that (fiscal stimulus, tax overhaul etc).

Touched on the 'terminal' or neutral rate of interest. In his view, neutral was somewhere between 2.25% and 2.75%.

[current benchmark range: 1.5-1.75 and forecast to be at 2.0-2.25 by the end of the year]

"for me, I think we get to neutral, and then we let the economy work."

He reinforced that the Fed is happy to see inflation run above 2% for a period of time – they have seen inflation reach 2% only to see it fall away again.

Cancellation of Nth Korean summit – creates more/adds to uncertainty, business doesn't know where policy is going end up, uncertainty around trade was a theme in the minutes

https://www.cnbc.com/2018/05/24/cnbc-exclusive-cnbc-transcript-atlanta-federal-reserve-president-raphael-bostic-speaks-with-cnbcs-steve-liesman-today.html

https://www.cnbc.com/video/2018/05/24/feds-bostic-want-to-see-how-the-economy-works-at-neutral.html

Europe/ECB

Account of the Monetary Policy Meeting

ECB remaining accommodative – underlying (core) inflation remains subdued and hasn't shown a sustained upward trend yet.

Growth seen as moderating, but still elevated – underlying growth momentum still seen as intact.

External risks factoring into decision making – Brexit and now uncertainty around trade tensions and impacts from proposed tariffs.

https://www.ecb.europa.eu/press/accounts/2018/html/ecb.mg180524.en.html

Japan

Tokyo CPI

A continued run of disappointing inflation data for Japan. Tokyo CPI for May coming in flat 0% for the month and only +0.4% for the year. Underlying inflation pressures also seen as slowing further +0.2% for the year and 0% for the month. Inflation measures have continued to slow over the last 2-3months after showing some strength late 2017/early 2018 and are still well below 2% BoJ target.

Table Ku-area of Tokyo, May 2018 (preliminary)

	Weights	Index	Annual Change (%)	Monthly Change (%) (Seasonally adjusted)
All items	**10000**	**100.5**	**0.4**	**0.0**
All items, less fresh food	**9588**	**100.5**	**0.5**	**0.0**

All items, less fresh food and energy	**9038**	**100.8**	**0.2**	**0.0**

http://www.stat.go.jp/english/data/cpi/1581-t.html

Last week prelim CPI for Japan was released.

Friday 25 May 2018

<u>United Kingdom</u>

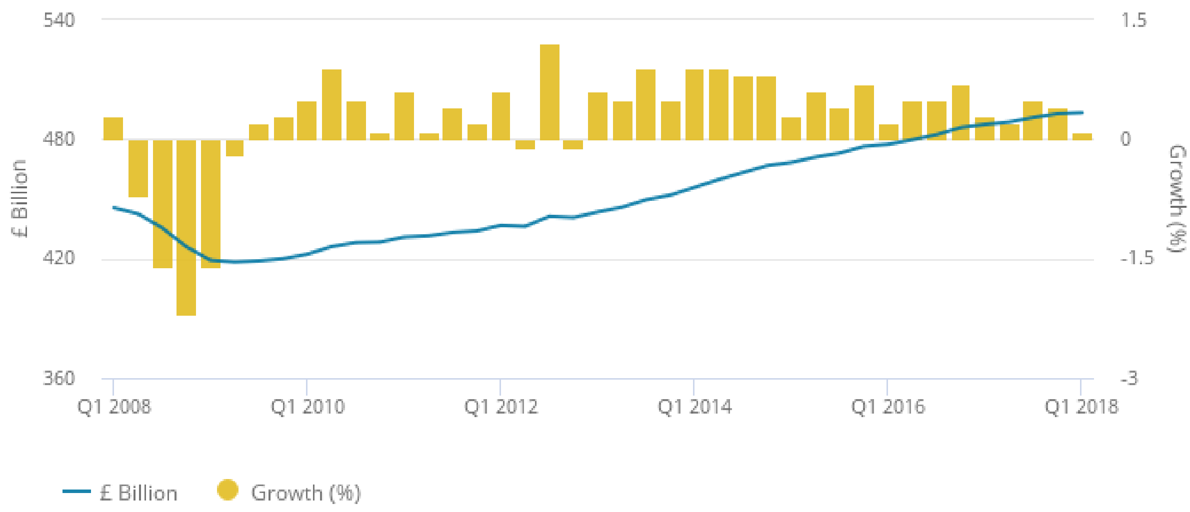
UK GDP Q1 (prelim)

Q1 GDP growth slowed to +0.1% versus Q4 growth of +0.4%

Highlights: services were the main driver of growth, despite a longer term weakening in consumer facing services (retail trade, food and beverage serving activities, publishing, audio visual and broadcasting activities, and arts, entertainment and recreation), production continued to grow, but within that manufacturing declined 0.2%, construction was a key driver of the slower growth, declining 3.3% (the output decline was evident over all 3 months of the quarter).

Figure 1: Seasonally adjusted gross domestic product (£ billions) and quarter-on-quarter growths

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 1 (Jan to Mar) 2018



Source: Office for National Statistics

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/grossdomesticproductpreliminaryestimate/januarytomarch2018

<u>United States</u>

Durable Goods Orders (Apr advance report)

This report is a gauge of manufacturing activity in the US – broken down in shipments and new orders.

Expected -1.4%, Actual Apr -1.7% versus Mar +2.7% (upward revised)

April Shipments -0.1%, New Orders -1.7%

Durable Goods Ex transportation April - Shipments +1%, New Orders +0.9%

Stronger underlying growth in April (ex transportation) than what the headline number suggests.

Fed Powell speech

Financial Stability and Central Bank Transparency 25 May 2018

- No insight as to current monetary policy in the US
- Interesting speech regarding the role of the Fed and financial stability given President Trump is looking to roll back some of the post GFC financial regulation.

https://www.federalreserve.gov/newsevents/speech/powell20180525a.htm

Federal Reserve Banks of Dallas and Atlanta hold a two-day conference on **"Technology-Enabled Disruption: Implications for Business, Labor Markets and Monetary Policy".**

FOMC Kaplan (Dallas Fed) – Bloomberg Interview

Interest rates gradually moving toward neutral

Expecting stronger growth this year, but somewhat weaker growth next year – heading back down to 'potential GDP' 1.75-2% by 20/21 – that's what he thinks about when he thinks of the shape of the FF curve.

On a fourth hike this year: would have to see that sustainable GDP growth was improved - in order to achieve a 4th hike this year, fundamental drivers of the workforce would need to change.

Doesn't want inflation to run persistently above or below 2% - been below for the last 7-8 years.

Things that concern him:

- Aging workforce growth – no policy decisions to address that
- Skill levels in the US are lagging the rest of the world (low OECD ranking)
- Very highly leveraged and we just leveraged up late in the economic cycle – might create a headwind for economic growth (reduced capacity for fiscal policy at next downturn)

Non-financial corporate debt – high, but doesn't see it as having systemic risk (an impact throughout the economy).

Oil – fragile equilibrium.

Are we doing the things to grow GDP – growth in the workforce and growth in productivity - not seeing policy steps to address either. Haven't noticed it because Fed has been accommodative and there has been another round of fiscal stimulus.

Are we tightening yet? Raising the FFR, moving to neutral the theoretical funds rate where we are no longer accommodative 2.5-2.75% (0.5-0.75% real) – at neutral in 3 or 4 moves.

Watching the shape of the yield curve – tells him prospects for future growth are sluggish (worth paying attention to that) – that's why he's saying keep base case for this year at 3, not looking to increase that.

Have inflation dynamics changed? Yes – technology, business has less pricing power, tech & globalisation are grinding prices down.

Local co's in Dallas – bringing forward existing capex plans, not increasing spend overall. Linked back to forward looking sluggish growth. Co's will increase capex if sales continue to grow – still at a cautious stance right now.

Population growth is a key engine of GDP growth – Texas has that, but it is a challenge for 30-35 states, population growth is flat to down in some states.

Thinks it's a challenge to cut immigration and grow GDP at the same time.

https://www.bloomberg.com/news/videos/2018-05-25/kaplan-says-fed-should-gradually-move-to-neutral-stance-video

2nd interview

https://www.cnbc.com/video/2018/05/24/feds-kaplan-dont-want-to-run-persistently-above-2-percent-target.html

US Fed Evans speech (Chicago Fed)

Panel on Technology enabled disruption: implications for business, labour, markets and monetary policy (at Dallas fed)

Outcome-based policy—can avoid missteps that might come from strict adherence to a fixed policy rule. Execution of outcome-based policy often requires using informed discretion in instrument setting.

Indeed, we may never be able to come up with good estimates of how the various crosscurrents associated with AI and ML are affecting the aggregate economy. But we will be able to observe whether our current policy coincides with restrictive,

https://www.chicagofed.org/publications/speeches/2018/05-25-2018-monetary-policy-and-crosswinds-of-change-dallas

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Other

China trade negotiations - Talks in Washington with Chinese officials last week – trade dispute with China "on hold for now". China has agreed to 'significantly increase' its purchase of US agriculture and energy products – details still to be negotiated. No mention of whether the latest talks address the forced transfer of US intellectual property.

NAFTA negotiations ongoing, the initial May 17 deadline passed and Speaker Ryan extended that deadline by a week or two (end of May) in order to ensure that a deal can be approved by this current US congress (before mid-terms). Next few weeks should see more progress.

Wilbur Ross has launched a new investigation (under section 232) into car and truck imports. The US is threatening to impose up to 25% tariffs on imported vehicles. Whether this is a negotiating tactic is yet to be seen.

Temporary tariff exemptions extended to 1st June 2018 –awaiting an announcement on steel tariffs for other countries.

US Mid-terms

US Financial Regulations - **"**U.S. lawmakers are set to give Trump a chance to make good on his vow to "do a big number" on the Dodd-Frank Act. Legislation set for passage by the Republican-dominated House this week is the product of years of financial-industry lobbying to soften post-crisis rules, as well as sensitive negotiations on Capitol Hill to attract bipartisan support needed to get it through the narrowly divided Senate. The package may represent Congress's last shot at dialling back Wall Street oversight before midterm elections in November that could have a significant impact on the future of bank regulation" (Source: Bloomberg).

Geopolitical tensions – creating some uncertainty, where in recent weeks an easing of geopolitical events have been more of a tailwind. Some uncertainty as to the Nth Korean summit – initial reports that summit cancelled, but US representatives apparently meeting with North Korean officials.

Italian Election (Mar 18) – it's been two months since the election and two winning populist parties have proposed Giuseppe Conte (a law professor) as PM – President Mattarella will need to confirm this nomination.

"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-coaltion-government

Italian 2year yields spiked as the two elected parties have outlined increased spending and watered down some of their original election proposals.