MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 18 June 2018

Key Themes

Central bankers attended the ECB Forum on Central Banking – discussions, panels and presentation of papers on Wage and Price Setting.

US Fed Chairman Powell used the opportunity to reinforce the position of the FOMC - a strong case for further gradual increases in the FFR, strong economy and balanced risks. During the week, speech by Atlanta Fed President Bostic provided a positive view of current performance, but was more cautious that activity (spending, inflation, wages) wasn't representing a shift in economic momentum but was the result of transitory factors.

BoJ minutes for April - inflation remains too weak, the chances of the bank achieving its 2% target by 2020 seemed low under current policy guidelines. BoJ to discuss at length in June & July meetings. Comments suggest possibly setting up for further accommodations. A speech by Board member Funo highlighted that the BoJ will not be tapering any time soon, highlighted risks to the economy from trade protectionism.

RBA minutes had a large change in wording – removed reference that the next move for the cash rate would be up and provided more hints at general concerns about low wage growth, excess capacity in the labour markets, high household debt and further tightening of lending standards in the future. House prices fell during Q1 at a National level.

The BoE kept rates on hold and policy unchanged, except advised that any tapering of stock of QE assets would not occur until Bank Rate reached 1.5% (had previously advised 2%). A speech later by Governor Carney outlined that the BoE will receive a capital injection – to significantly increase the amount of liquidity the bank can provide, as the bank prepares for Brexit. The key piece of Brexit legislation was finally passed by the UK parliament this week.

China is easing – PBoC cut its Required Reserve Ratio (RRR) by 0.5% (effective 5 July) to provide liquidity support as the crackdown on shadow banking continues and trade tensions with the US escalate. Issues seen in the Chinese stock market and reports of increasing difficulty in securing domestic funding. The PBoC also widened the range of eligible collateral for short-term loans.

On global growth –

- Prelim PMI's for June – while all PMI's still in expansion, across US, Europe and Japan a similar result, a slowing of momentum in June, with manufacturing conditions weakening, off-set somewhat by activity in services. Key themes - slowing new orders, trade and political concerns have been emerging across different reports (not just PMI's).
- Consistent with Prelim PMI, US Philly Fed manufacturing outlook activity index fell in the latest month, highlighting continued moderation in conditions 6mths from now.

- Continued slowing of Canadian retail sales and low CPI growth.

US-China tariffs – threats and retaliatory actions continued during the week. The focus now is on how China may escalate beyond trade tariffs (currency depreciation).

Contents

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Supply of treasuries will be somewhat lighter this week with approx. $161b in treasury bill auctions, raising approx. $6b in new money (4wk t-bill TBA). These auctions settle on 21st June.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B	
18-22 Jun 2018	18-Jun-18	21-Jun-18	4wk bill	45		tba	
			3mth bill	48		announced	
			6mth bill	42		announced	
			12mth bill	26		announced	
				161	155	6	

Next week, there is $146b in t-bill and note auctions that will raise approx. $11b in new money.

This month, there will be $30b in Fed holdings of securities that will mature on 30 June. Of that, $18b of securities will roll off the Fed balance sheet and $12b will be reinvested – which roughly offsets the amount of new money raised by the US Treasury. Expecting less liquidity pressure than previous weeks at this stage.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B	
25-29 Jun 2018	25-Jun-18	28-Jun-18	4wk bill	45		tba	
			3mth bill	42		tba	
			6mth bill	39		tba	
				126	135	-9	
	21-Jun-18	30-Jun-18	30yr TIPS (R/o)	5		announced	
			2yr FRN (r/o)	15		tba	
				20	0	20	
				146	135	11	-1.45
Fed SOMA - Face Value of SOMA securities maturing 30 June 2018					30.45		
		Proportion of mthly cap ($18b total June)			18.00		
			Amount to reinvest		12.45		

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.

US Data

William Dudley (Governance and Culture Reform opening remarks by the new President and CEO of the NY Fed John Williams)

https://www.newyorkfed.org/newsevents/speeches/2018/wil180618

Atlanta Fed President Raphael Bostic speech – The Path to Economic Resilience, Rotary Club of Savannah

Sees output growing above trend this year, slowing to less than 2 percent (long run potential rate). Continue to move policy toward a more neutral stance – neither restrictive nor accommodative (this is a best estimate level).

Comments were more circumspect on current economic performance:

Q2 Growth - expected to come in higher than estimated "but I suspect that some of this strength is tied to transitory or idiosyncratic factors that do not signal a major shift in momentum"

Consumer Spending – has picked up, but increased spending on services can be tied to a spike in spending on utilities due to unusual weather patterns. "Most of our reports from businesses tied to the consumer sector indicate no discernible changes in the pace of spending relative to recent trends".

Business Investment - recent acceleration due to a rebound in spending related to the mining and energy sector. "Excluding energy and oil investment, investment growth is still below 5 percent on a year-over-year basis—a bit lower than the typical expansion average".

Inflation Expectations – "I have not seen a dramatic shift in inflation expectations or measured retail price inflation"

Wage Growth – no evidence that it is accelerating at an unsustainable pace. Aggregate wage growth appears to have flattened out over the past year and is in line with economic fundamentals (that is, productivity growth plus inflation). "Most of the Atlanta Fed's business contacts characterize labor markets as tight, but not many of them plan to respond by raising wages across the board".

Rising energy prices and anticipated tariff-related costs are generating more reports of upward price movement along the supply chain, few indications that the affected businesses expect to pass costs through to the final consumer.

I think this is a particularly important quote:

"I began the year with a decided upside tilt to my risk profile for growth, reflecting business optimism following the passage of tax reform. **However, that optimism has almost completely faded among my contacts, replaced by concerns about trade policy and tariffs.** Perceived uncertainty has risen markedly. Projects already under way are continuing, but I get the sense that the bar for new investment is currently quite high. "Risk off" behavior appears to be the dominant sentiment among my contacts. In response, I've shifted the risks to my growth outlook to balanced".

The final half of the speech focuses on factors that promote economic resilience among communities. Maybe this quote sums up some of the broader issues;

"Even in cities where employment is growing, like Savannah, median household income and poverty rates have not shown positive progress. In these places, we are learning that job growth alone is insufficient if these jobs are not accessible because of transportation barriers or mismatched worker skills. Another issue is that many of the jobs being created are low-wage and don't allow families to rise above the deeper challenges of poverty"
https://www.frbatlanta.org/news/speeches/2018/06/18-bostic-path-to-economic-resilience.aspx

St Louis Fed Bullard speech – The Case of the Disappearing Phillips Curve (ECB Forum on Central Banking)

https://www.stlouisfed.org/~/media/Files/PDFs/Bullard/remarks/2018/Bullard_ECB_Sintra_June_19_2018.pdf?la=en

Powell speech – Monetary policy at a time of uncertainty and tight labour markets (ECB Forum on Central Banking) – this speech was given as a part of the panel including Mario Draghi, Huruhiko Kuroda and Philip Lowe.

Powell talks directly about current US monetary policy in the intro and conclusion –

"with unemployment low and expected to decline further, inflation close to our objective, and the risks to the outlook roughly balanced, **the case for continued gradual increases in the federal funds rate is strong**"

"the economy is strong and risks to the outlook are balanced, **the case for continued gradual increases in the federal funds rate remains strong** and broadly supported by FOMC participants"

"growth is meaningfully above most estimates of its long-term trend–though admittedly, that trend is not as strong as we would like it to be"

The remainder of the speech talks about the somewhat inconsistent data around the tight labour market conditions – very low unemployment rate, elevated job vacancies but low wage growth and seemingly little reaction from inflation. Questions prompted by a tight labor market: How reliable are estimates of the natural rate of unemployment? What would be the consequences for inflation if unemployment were to run below the natural rate for an extended period of time? Can persistently strong economic conditions pose financial stability risks? And, while persistently strong economic conditions can pose risks to inflation and perhaps financial stability, we can also ask whether there may be lasting benefits.

https://www.federalreserve.gov/newsevents/speech/powell20180620a.htm

https://www.ecb.europa.eu/pub/conferences/html/20180618_ecb_forum_on_central_banking.en.html

US Prelim PMI Composite – June

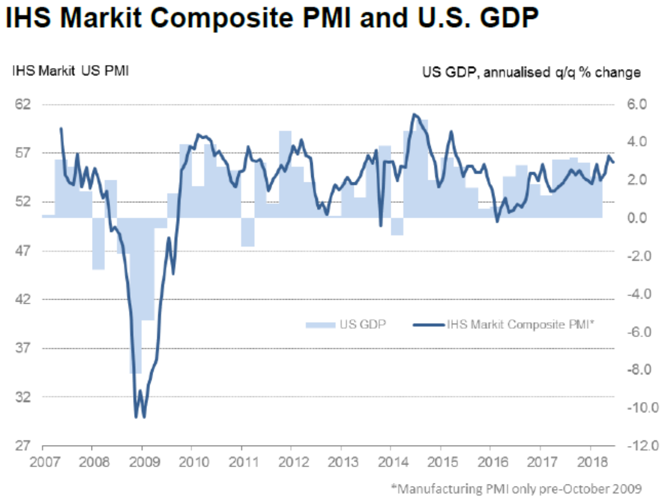
The composite index decreased slightly; June 56 versus May 56.6

Services activity was the stronger of the indexes, but decreased slightly; June 56.5 versus May 56.8

The manufacturing index decreased further, now at a 7month low; June 54.6 versus May 56.4

Overall in the month – new business growth eased, employment growth eased, and cost pressures persisted.

Despite weaker readings in the June month, the overall performance in the quarter suggests that output continued to expand in Q2 – suggest possibly faster GDP growth in Q2.



https://www.markiteconomics.com/Survey/PressRelease.mvc/ee86238dc1914ba8af193f3ad92da88d

Philly Fed – Business Manufacturing Outlook Survey June

The general activity index remains in expansion, but fell in the latest month: -

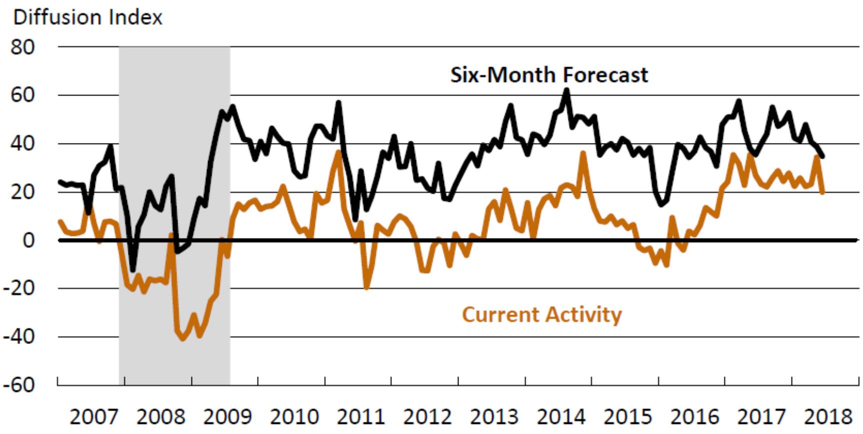
June 19.9 versus May 34.4

The decline was the result of less respondents recording an increase in general business activity and more respondents recording a decrease in activity: -

Increase in general business activity; May 43.2 versus June 36.6

Decrease in general business activity; May 8.8 versus June 16.8

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

New orders index also decreased, back to below the April reading; June 17.9 versus May 40.6 (April 18.4)

Increasing backlog of orders has been a theme during 2018 so far among the regional surveys and PMI's. In this report that backlog has been diminished and the index returned to contraction territory; June -2.7 versus May 15.3.

Price paid are also still in expansion, but decreased slightly in the latest month; June 51.8 versus May 52.6

The expected six-month view of prices received recorded an increase; (from June), more respondents expected an increase (ability to pass on prices); June 56.6 versus May 33.6

The index for overall business conditions six months from now continues to moderate (but is still in expansion); June 34.8 versus May 38.7 (April 40.7)

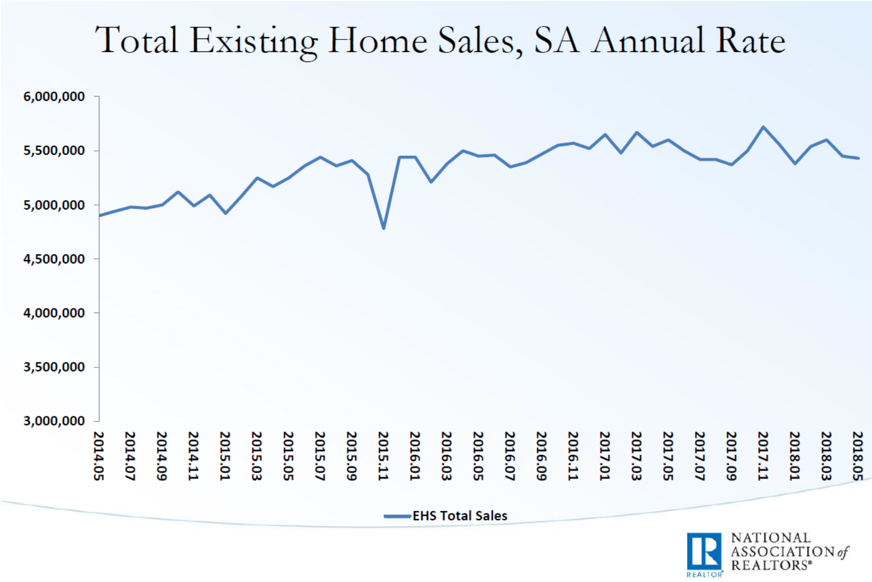
https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2018/bos0618

Existing Home Sales – May

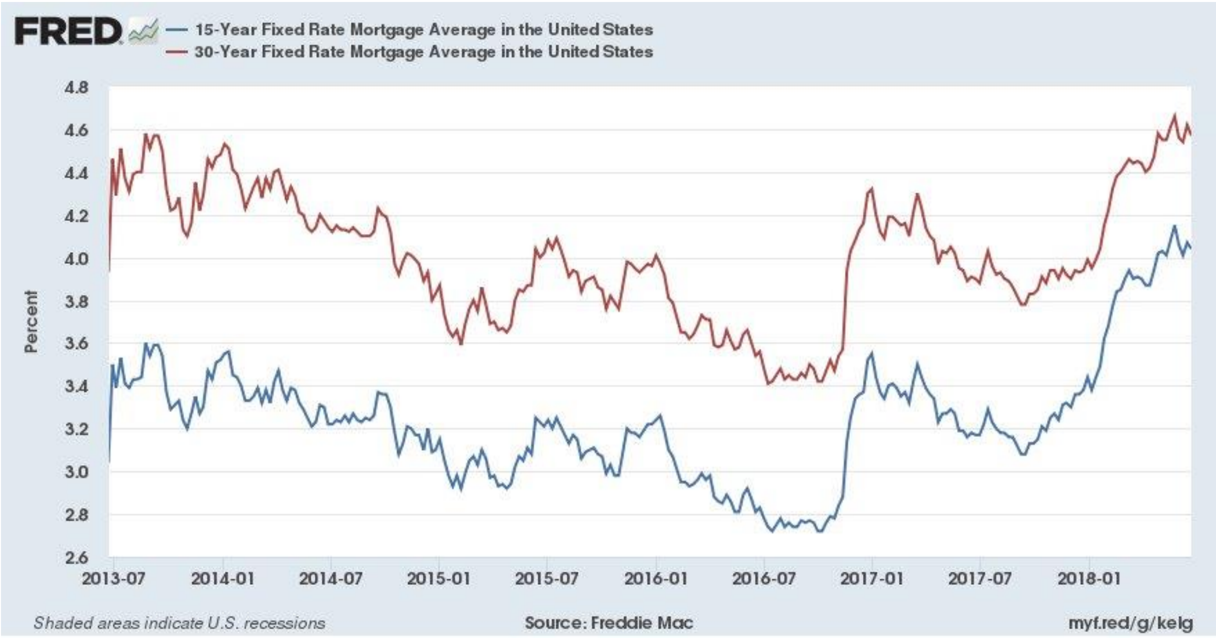
Existing home sales recorded further decline in the latest month of -0.4% and -3% year on year.

The Northeast and West regions recorded annual sales declines above the National rate of -11.7% and -4.1% respectively. The Mid-West declined by -2.3% and the South 0% change year on year.

Inventory declined on an annual basis and months supply has been increasing over the last 3 months.



As an addition to this data, I've provided the latest 15 and 30-year mortgage rates in the US;



https://www.nar.realtor/sites/default/files/documents/ehs-05-2018-summary-2018-06-20.pdf

https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

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Europe

ECB – Draghi remarks at ECB forum on central banking – price and wage setting in advanced economies

All forum sessions/videos via the link below

https://www.ecb.europa.eu/pub/conferences/html/20180618_ecb_forum_on_central_banking.en.html

Euro Zone Prelim PMI – June

The overall composite PMI recorded a small increase in June, stronger readings in services helped to off-set further declines in manufacturing.

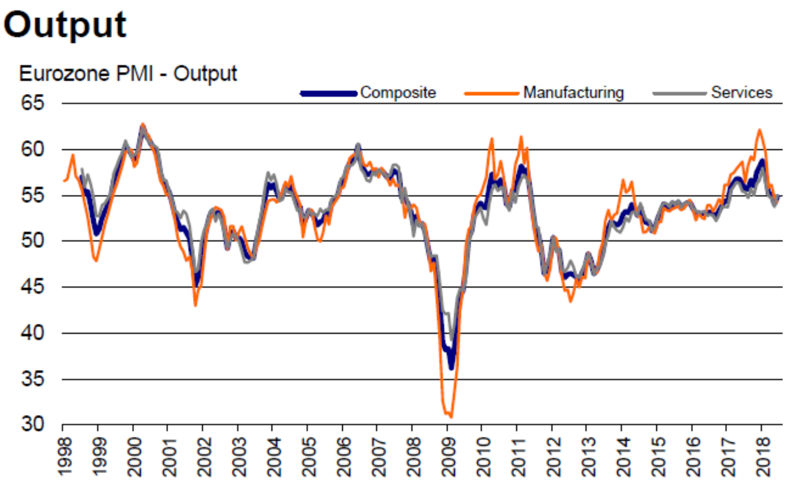
Overall still well off the highs from the start of 2018; June 54.8 versus May 54.1

Services PMI continued to increase; June 55 versus May 53.8

Manufacturing readings continued to decrease; June 54.3 versus May 54.8

This is still an overall weak level of expansion in the region. Surveys have highlighted an increasing number of companies reporting a slowing in demand growth compared with the start of the year – linked to trade and political concerns. Business expectations have also moderated, falling to a 19-month low. Output is growing faster than the rate of new orders suggesting further weakness is possible.

Input price pressure is also increasing – led higher by oil and raw materials costs. In some parts of the region, wages are also adding to higher costs.



https://www.markiteconomics.com/Survey/PressRelease.mvc/011b0257c2144e039cb20304c7547825

Germany – Prelim PMI (June)

A similar story in Germany – stronger reading among services firms outweighed a continued weaker manufacturing sector:

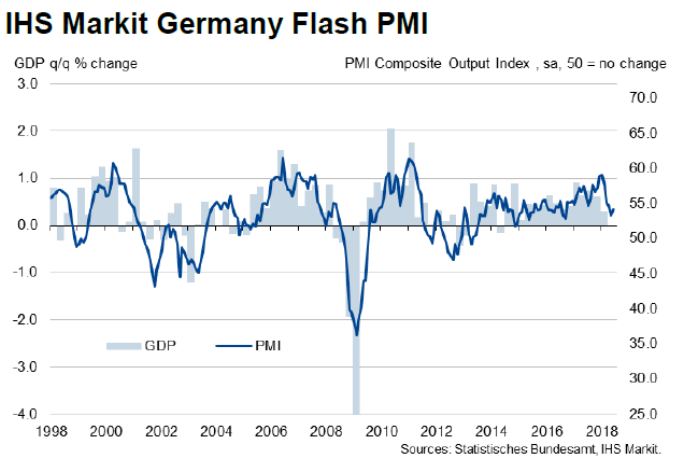
Composite index; June 54.2 versus May 53.4 – still well off the early 2018 highs and the first increase since January 2018.

Services were stronger; June 53.9 versus May 52.1

Manufacturing PMI, whilst still in expansion, continued to fall, now at an 18-mth low: June 55.9 versus May 56.9. Manufacturing output also weakened in June to a 19-mth low.

Manufacturing weakness the result of – weaker output growth, slower increases in new orders and a reduction in the incidence of supply chain delays. Export order growth continued to slow – firms reported "quieter client interest from US and China".

Business confidence for the year ahead is stronger for services than for manufacturing – with the manufacturers at their least optimistic for the last 3 years.



https://www.markiteconomics.com/Survey/PressRelease.mvc/b324ce694ec6461e8df8b462540c8840

France – Prelim PMI (June)

Similar results also in France with the composite PMI slightly higher on the back of stronger services and weaker manufacturing.

Composite PMI – June 55.6 versus May 54.2

Services continued to expand at an accelerated rate; June 56.4 versus May 53.4

Manufacturing, although still expanding, did so at slower pace; June 51.8 versus May 53.7

Manufacturing conditions weakened; only modest increase in output, new orders rose at their weakest pace since Feb 2018. Conversely, lead times continued to lengthen, stocks were low at vendors and rising price pressures.

Economic Output

https://www.markiteconomics.com/Survey/PressRelease.mvc/6aa21451640a455298acf693729d00c6

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Japan

BoJ Policy Meeting Minutes (April meeting)

Policy rate and accommodations were left unchanged – there are comments in the minutes that hint at the BoJ setting up for further policy accommodations.

Growth - expecting growth to remain moderate (GDP declined in Q1) investment to continue to be strong – Olympic games-related investment and labour-saving investment to address the labour shortage.

Prices – firms wage and price setting stance remain cautious.

“if the unemployment rate declined further, prices eventually would start to rise in line with the Phillips curve, and therefore it was **important to continue to firmly pursue powerful monetary easing until then**”.

Although the CPI growth continued to show ‘weak developments’, rate of change was likely to increase on the back of a positive output gap and the rise in medium to long term inflation expectations.

Labour markets – labour shortage, but limited reflection of that in wage prices, firms and households deeply entrenched view that prices and wages don’t rise easily.

Prices – upside and downside risks – a lag in the development of med-long term inflation expectations of firms & HH’s. Outlook for prices, **risks skewed to the downside**, especially regarding med-long term inflation expectations.

Growth – upside & downside risks – US economic policies and geopolitical events affecting stock prices and long-term interest rates, protectionist US trade policy (large implication for Japanese auto industry), consumption tax hike. **Balanced risks in 2018, but risks skewed to the downside from 2019 onwards.**

2% inflation target – some discussion regarding either a firmer date for achieving the target or removing any reference to a timeline.

"one member said that **the possibility of the Bank achieving the price stability target by fiscal 2020 seemed low under the current guideline for market operations**. This member commented that it therefore was necessary to encourage a further widening of the output gap within positive territory by **taking additional easing measures** and a rise in inflation expectations through reinforcing the inflation-overshooting commitment".

Dissenting vote – Kataoka; risk factors through to fiscal 2020 such as consumption tax hike, possible economic downturn in the US, **desirable to further strengthen monetary easing** – to purchase 10yr JGB's to lower the 10yr yield further

https://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2018/g180427.pdf

Kuroda speech

Participating in the policy panel on Wed 20th – ECB forum on Central Banking

https://www.ecb.europa.eu/pub/conferences/html/20180618_ecb_forum_on_central_banking.en.html

BoJ Board member Funo speech

The BoJ needs to "patiently continue its strong monetary easing under the current policy". Inflation assessments were downgraded in the latest BoJ meeting, as CPI growth remains well below the bank target of 2%. Its not likely that the BoJ will be tapering its monetary stimulus anytime soon.

Next month the BoJ will provide long term economic and price growth projections.

"Prices remain weak. Risks that prices, centring on medium- to long-term inflation expectations, deviate downwards are large,"

"As Japan's economy is founded on global trade, emerging of protectionism in the global economy is a risk that may affect us."

(full text yet to be uploaded to the BoJ site)

https://www.reuters.com/article/us-japan-economy-boj/bank-of-japans-funo-calls-for-strong-easing-to-hit-two-percent-inflation-as-prices-weak-idUSKBN1JH059?il=0

https://www.boj.or.jp/en/mopo/r_menu_koen/index.htm/

JAPAN CPI (May)

Data for May CPI confirmed higher headline annual CPI +0.7% (April +0.6%)

In the month, CPI growth +0.1% (April -0.4%)

Slower annual growth in Core CPI (ex Food & Energy) highlights the lower underlying price growth; annual +0.3% and May 0% (The April report; annual at Apr 0.4% and mth -0.1%)

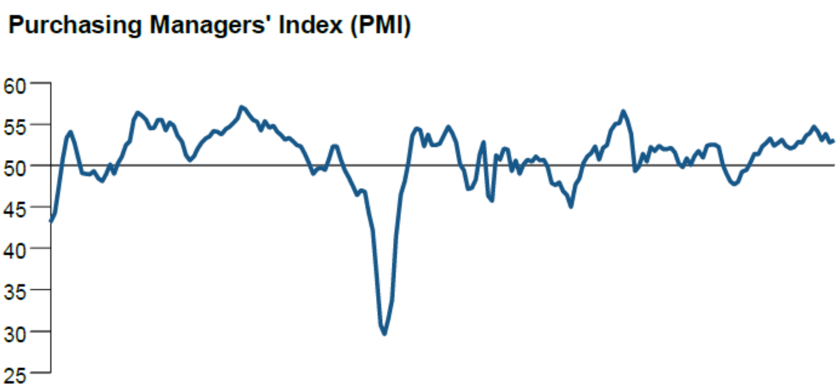
Fuel Light & Water Charges was the main contributor to headline CPI growth; Annual +3.1% and May +1%.

(10 Major Group Index)	Weights	Index	Annual Change (%)	Monthly Change (%)
Food	2623	102.8	0.8	0.0
Housing	2087	99.6	-0.1	0.0
Fuel, light and water charges	745	98.7	3.1	1.0
Furniture and household utensils	348	97.9	-1.5	-0.2
Clothes and footwear	412	103.5	0.1	0.0
Medical care	430	103.2	1.9	0.2
Transportation and communication	1476	99.6	1.3	0.3
Education	316	102.8	0.3	0.0
Culture and recreation	989	101.8	0.0	0.1
Miscellaneous	574	101.3	0.3	0.1

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

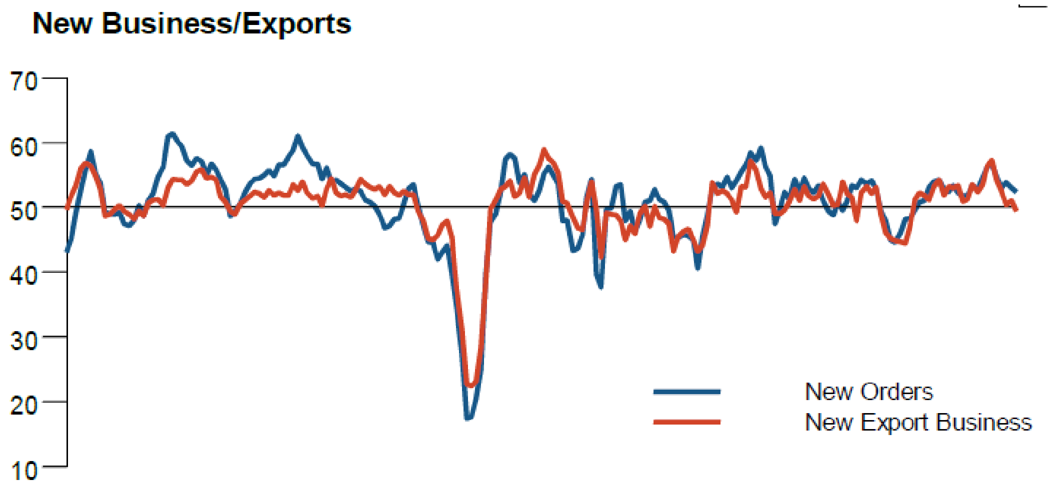
Nikkei Flash Manufacturing PMI – June

Overall Manufacturing PMI increased; June 53.1 versus May 52.8



The increase was the result of growth in employment, increasing backlog of orders and increasing output prices. New orders remained in expansion but slowed in the recent month.

New export orders declined for the first time since Aug 2016. Further data in a week's time will confirm the degree to which new export business has fallen.



https://www.markiteconomics.com/Survey/PressRelease.mvc/e1e8f580c2694adcaac7f3ad9ffe0b21

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Great Britain

Bank of England monetary policy announcement – June

Rates on hold; +0.5% (majority vote 6-3)

Unanimous decisions to;

- maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion
- maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion

Also advised that the stock of purchased assets will not be reduced until the Bank Rate reaches 1.5%. The BoE had previously advised that it would be 2%.

For the moment, the Bank Rate increases will be done "at a gradual pace and to a limited extent". [Previous time frames provided suggested 3 rate increases over 3 years – which means any balance sheet reduction might start, at a minimum in 3 years' time].

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/june-2018

BoE Governor Mark Carney speech – New Economy, New Finance, New Bank

This speech includes the announcement of **capital injection for the BoE** – further signalling that the BoE is preparing for Brexit and any risks associated.

"The Bank's new approach can be summarised in four words: we're open for business. We now provide liquidity against a wider range of collateral, to a wider range of counterparties, for longer terms, and at lower fees than ever before. And we stand ready to provide liquidity in a range of foreign currencies if required".

"With the Chancellor's announcement tonight of a ground-breaking new financial arrangement and capital injection for the Bank of England, we now have a balance sheet fit for purpose and the future"

"The additional capital will significantly increase the amount of liquidity the Bank can provide through collateralised, market-wide facilities without needing an indemnity from HM Treasury to more than half a trillion pounds. This lending capacity would expand to over three quarters of a trillion pounds when, as designed, additional capital above the target level is accrued through retained earnings"

https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/new-economy-new-finance-new-bank-speech-by-mark-carney.pdf?la=en&hash=F362C661810257FE779E3D5BCA17144EC65E8C63

Brexit

A key piece of Brexit legislation was passed this week by the UK parliament – the EU Withdrawal Bill.

On Friday of last week, the EC President Jean-Claude Juncker, outlined that he was stepping up preparations for a possible breakdown in talks with both sides still far apart on the hardest issues. [No doubt this is just part of prudent planning]. https://www.theguardian.com/politics/2018/jun/21/eu-is-getting-ready-for-no-deal-brexit-says-jean-claude-juncker

The next important event is the European Council meeting in Brussels on 28th -29th June 2018 – a key agenda item is "The European Council (Art. 50), in an EU 27 format, will review the state of Brexit negotiations and adopt conclusions on progress made.

http://www.consilium.europa.eu/en/meetings/european-council/2018/06/28-29/

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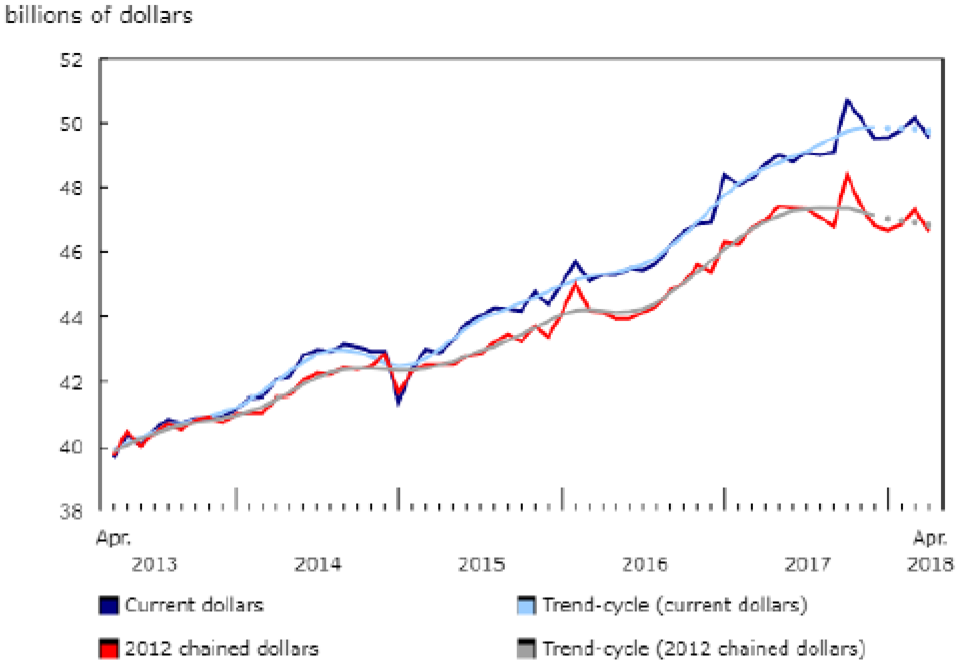
Canada

Canada Retail Sales - April

Retail sales declined in the latest month: April -1.2% versus March +2.9%

In current dollars, annual retail sales growth +1.6% in April.

Retail sales expressed in volume terms declined in the month -1.4% and declined by -0.7% year on year in a very clear trend of slowing retail sales growth (volume): -



The main contributor to the decline in the value of retail sales in April was lower sales of motor vehicle and parts dealers. But sales were also lower across furniture and home furnishings, building materials, health and personal care, clothing and closing accessories, sporting goods and general merchandise.

https://www150.statcan.gc.ca/n1/daily-quotidien/180622/dq180622b-eng.htm

Canada CPI – May

Headline CPI increased in May; Annual +2.2% and latest month +0.1%

Headline CPI growth has been slowing over the last four months.

Excluding Energy, CPI growth 0% in the month. Energy costs continued to increase in May (+3.3% MoM), but that had slowed from the prior mth of +6.8%.

The BoC's preferred measures of core inflation (common, median and trim) were all lower than headline growth, and unchanged from the annual read of the prior month; -

	February 2018	March 2018	April 2018	May 2018
	%	%	%	%
CPI-common{3}{,}{5}	1.9	1.9	1.9	1.9
CPI-median{4}{,}{6}	1.9	1.9	1.9	1.9
CPI-trim{4}{,}{7}	2.1	2	2.1	1.9

https://www150.statcan.gc.ca/n1/daily-quotidien/180622/dq180622a-eng.htm?HPA=1

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Australia

Q1 House Price Index

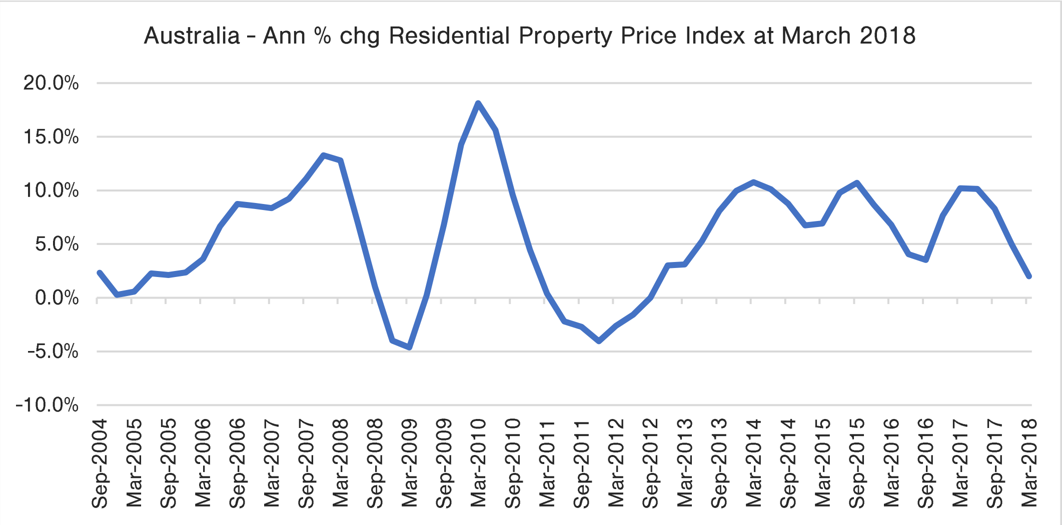
Growth in the National house price index (developed by the Aus Bureau of Stats) slowed further in the latest quarter:

Quarter; Q1 -0.7% versus Q4 +1%

Annual; Q1 2018 +2% versus Q4 2017 +5%

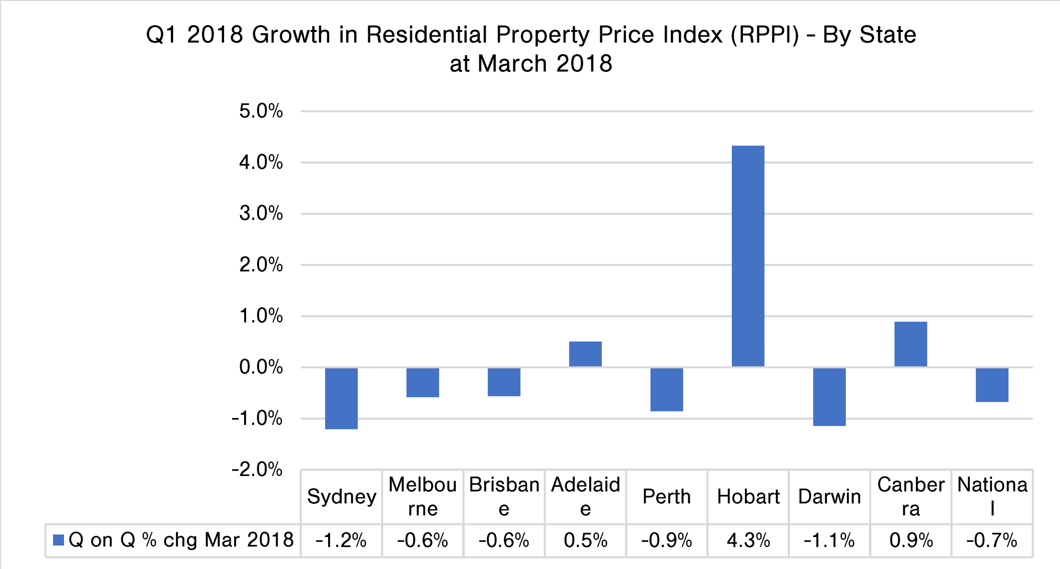
Overall residential price growth has been slowing since Jun Qtr 2017 when it peaked at +10% (weighted national average).

The actual National house price index only ‘peaked’ in Dec Q4.



The slow down in price growth is evident across both established houses and attached dwellings (units/apartments).

In the latest quarter, only the smaller capital cities recorded house price growth (Adelaide, Hobart, Canberra).



The decline in Darwin and Perth are related to the end of the investment phase of the recent mining boom.

The declines in the biggest capital cities - Brisbane, Sydney and Melbourne are all recent – related most likely to tighter lending controls to limit further growth in riskier interest only lending. This Q1 report covers the period to the end of March - auction clearance rates, especially in Melbourne and Sydney have continued to fall and lending, especially for investors has also continued to slow.

http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Mar%202018?OpenDocument

RBA Meeting Minutes June – Decision; overnight cash rate on hold at 1.5%

The one element missing in the minutes was the reference to the next move in rates. In May, the RBA board minutes had stated that the next move in rates was likely to be up. That entire reference was removed in the following paragraph in the June minutes;

"The low level of interest rates was continuing to support the Australian economy. Further progress in the period ahead in reducing unemployment and returning inflation to the target was therefore expected, although this progress was likely to be gradual. In the current circumstances and taking account of the available information, the Board judged that holding the stance of monetary policy unchanged would be consistent with sustainable growth in the economy and achieving the inflation target over time."

Absent in the latest minutes was any reference to the next move in rates. Instead, there were more hints at key concerns. Whereas, in the May minutes, there was more balance between upside and downside risks.

Key concerns; low wages growth, slowing employment growth (off a very high level), remaining excess capacity in the labour market (under-employment) and high household debt and further tightening of lending standards ahead.

In May, the RBA board had the following passage in the minutes: -

MAY Minutes (my emphasis added) "In the current circumstances, members agreed that **it was more likely that the next move in the cash rate would be up, rather than down**. As progress in lowering unemployment and having inflation return to the midpoint of the target range was expected to be gradual, members also agreed that there was **not a strong case for a near-term adjustment in monetary policy**. Rather, members assessed that while this progress was unfolding, it would be appropriate to **hold the cash rate steady and for the Reserve Bank to be a source of stability and confidence**".

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2018/

RBA Lowe speech

Participating in the policy panel on Wed 20th – ECB forum on Central Banking

His opening remarks start at 17.14

https://www.ecb.europa.eu/pub/conferences/html/20180618_ecb_forum_on_central_banking.en.html

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Other

OPEC – Since 2017, OPEC & Non-OPEC members have been reducing supply by approx. 1.8m bpd. Unplanned disruptions (Venezuela & Angola) meant that output was below targeted cuts (147% of estimated cuts). Via the latest OPEC meeting, these are to be reversed by supply increases to achieve 100% of the adjustment agreed in late 2016. Expecting a ramp up in H2 supply more to stabilize inventory than to provide a surplus.

http://www.opec.org/opec_web/en/press_room/5081.htm

SNB rates decision - June

Expansionary monetary policy left unchanged in the latest month

Interest on sight deposits at the SNB remains at –0.75%

target range for the three-month Libor is unchanged at between –1.25% and –0.25%.

The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Value of swiss Franc unchanged from March assessment – currency remains highly valued. Political uncertainty (Italy) has led the Franc back higher.

"The situation on the foreign exchange market thus remains fragile, and the negative interest rate and our willingness to intervene in the foreign exchange market as necessary therefore remain essential"

Baseline scenario – global growth remains above potential. Inflation forecast was upgraded because of oil – this effect rolls off from mid-2019. Q3 2018 +0.9 versus prior forecast of +0.6%.

Risks to the baseline scenario remain to the downside – political developments in certain countries, potential international tensions and protectionist tendencies.

https://www.snb.ch/en/mmr/reference/pre_20180621/source/pre_20180621.en.pdf

CHINA

The crackdown on shadow banking has made it increasingly difficult to secure domestic funding.

On 24 June the PBoC announced a range of policy changes to provide liquidity support – including a 0.5% cut to the RRR for commercial banks for targeted lending for smaller enterprises (approx. 500b yuan). Effective 5 July.

http://www.chinadaily.com.cn/a/201806/24/WS5b2f6784a3103349141de6fe.html

http://www.chinadaily.com.cn/a/201806/21/WS5b2b0d05a3103349141dd7c0.html

https://asia.nikkei.com/Economy/Defaults-surge-in-China-as-companies-suffer-credit-crunch

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Trade

US-China Trade Negotiations - The fall-out from the last weeks escalation in tariffs is...a further escalation in tariffs. President Trump has directed the USTR to draw up a list of a further $200b in Chinese imports upon which to apply a 10% tariff.

The new tariff would go into effect if the Chinese government did not lower recently announced tariffs on US goods and failed to address the theft of US intellectual property by Chinese companies.

China has threatened retaliation. The US has threatened another $200 billion in Chinese imports after that if Beijing retaliates.

On the 15 June, the US announced 25% tariffs on $50b of imports from China to stop the "forced transfer of American technology and intellectual property" to China.

The first wave of US tariffs, affecting $34 billion worth of Chinese goods across 818 product categories, goes into effect on **July 6.**

The second wave — affecting $16 billion of Chinese goods focused on semiconductors and electronics — is subject to a review and comment period as well as a public hearing.

China responded quickly with its own list of US imports that it will apply tariffs to (including soy and auto's). China's retaliatory tariffs will follow a similar schedule. Chinese Ministry of

Commerce released strongly worded statements throughout the last week regarding its negotiating position.

Car and Truck Imports - The U.S. administration has launched a national security investigation into car and truck imports.

Late of Friday 23 June, President Trump tweeted/threatened that if European tariffs and barriers "were not broken down soon" the US would be placing a 20% tariff on all their cars coming into the US.

US-Japan trade talks in July – implications for Japanese automakers and for trade negotiations of the US investigation into car and truck imports – auto's are one of Japan's major exports to the US.

NAFTA – talks to resume during northern hemisphere summer. No timeline established at this stage.

Steel Tariffs - Canada, Mexico and Europe have all announced targeted retaliatory measures to offset the impact of announced US tariffs. The Canadian government asserts that the NAFTA talks are on a separate track from the steel tariff retaliation.

Canada – preparing to impose $16b in tariffs on a range of US products to be applied from 1st July.

Mexico elections 1st July.

https://www.reuters.com/article/us-usa-trade-metals-europe/u-s-hits-allies-with-tariffs-as-risk-of-trade-war-rises-idUSKCN1IV2TN?feedType=nl&feedName=businessNews&utm_source=Sailthru&utm_medium=email&utm_campaign=2018%20Template:%20US%20Business%20News%201700%202018-05-31&utm_term=2018%20-%20US%20Business%201700

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