

Key Themes

The escalation in tariff and trade protections didn't take long to materialise during the week – starting with China's announcement of a significant increase in anti-dumping duties of US optical fiber. The US then announced a further round of tariffs and an investigation by the USTR for another 10% on \$200b Chinese imports.

Two Fed speeches worth highlighting this week;

Fed Chairman Powell's first broadcast interview – his speeches have so far emphasised the role of promoting financial stability (or the risk of instability from too easy monetary policy) alongside the price stability and full employment mandates. "If we leave rates too low for too long, then we can have too high inflation or we can have asset bubbles or housing bubbles".

Philadelphia Fed President Harker interview on Bloomberg – highlighting the importance of watching services inflation, also, comfortable with PCE inflation higher at 2.5% - depending on the level of acceleration.

Data and sentiment in the US continue to be strong. Consumer credit growth was higher in May and we could see this filter into expenditure data (eg May retail sales were stronger). JOLTS was little changed and remain near all-time high levels. Wholesale sales growth was also stronger, with petroleum accounting for 40% of the growth in the month. PPI growth in final goods for the month slowed somewhat, but the annual rate continued to grow, driven by goods (energy). Annual CPI also continued to accelerate, and CPI ex food and energy grew by +2.3%.

In Europe, data and sentiment were mixed. ECB President Draghi provided an upbeat picture of growth and inflation in the Eurozone with "risks balanced". But the Zew economic sentiment index for Germany fell further into negative territory and the Eurozone turned negative in the latest month. German headline CPI was +2.1% but ex food and energy came in at 1.4%. A bright spot in EU data was stronger industrial production growth in May after a weak result in April. The growth was widespread among key countries.

Brexit featured heavily this week with the resignation of key government officials after PM May released the Cabinet vision for the UK-EU relationship, or "soft Brexit". The govt is now shoring up support for its white paper on Brexit. Several parliamentary debates in the coming week will be crucial for the government, PM May and the path of Brexit plans. On the data front, the new monthly GDP report highlighted that current 'run rate' for GDP growth in the 3months to May is on par with the Q1 rate of +0.2%.

The BoC continued to lift its benchmark rate for the second time this year. The BoC highlighted that "dampened" HH growth would likely be off-set by stronger investment spending in response to capacity pressures and continued export growth.

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[Europe](#) – ECB Draghi speech, German trade balance (May), German and Eurozone Zew Economic Sentiment survey (June), Eurozone Industrial Production (June), German CPI (May – final)

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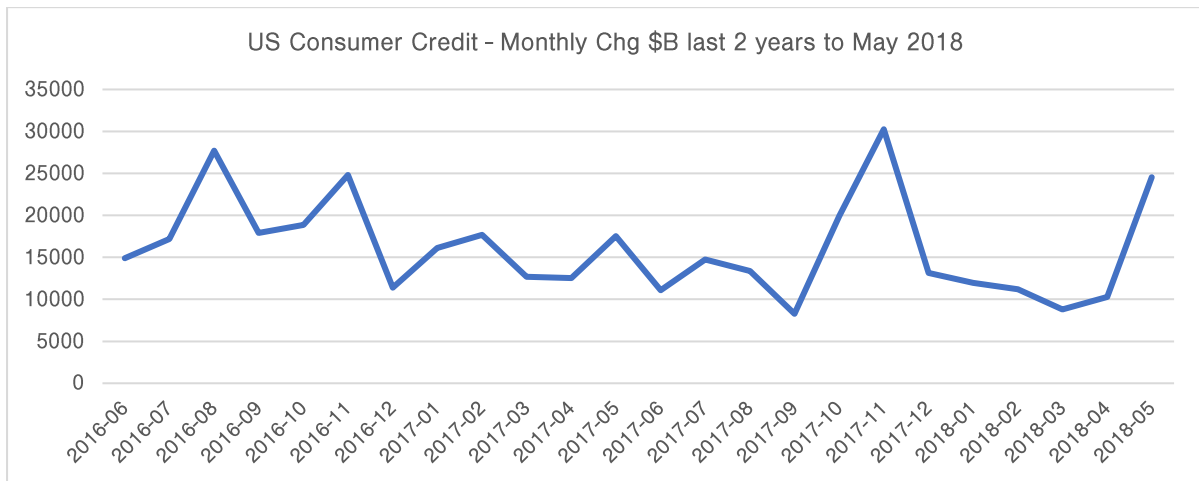
[Trade](#)

US Data

Consumer Credit (Prelim - May)

There was a large increase in the flow of new consumer credit in May and an upward revision for April. After several months of slowing credit growth, this increase is likely to have a positive impact on spending/data.

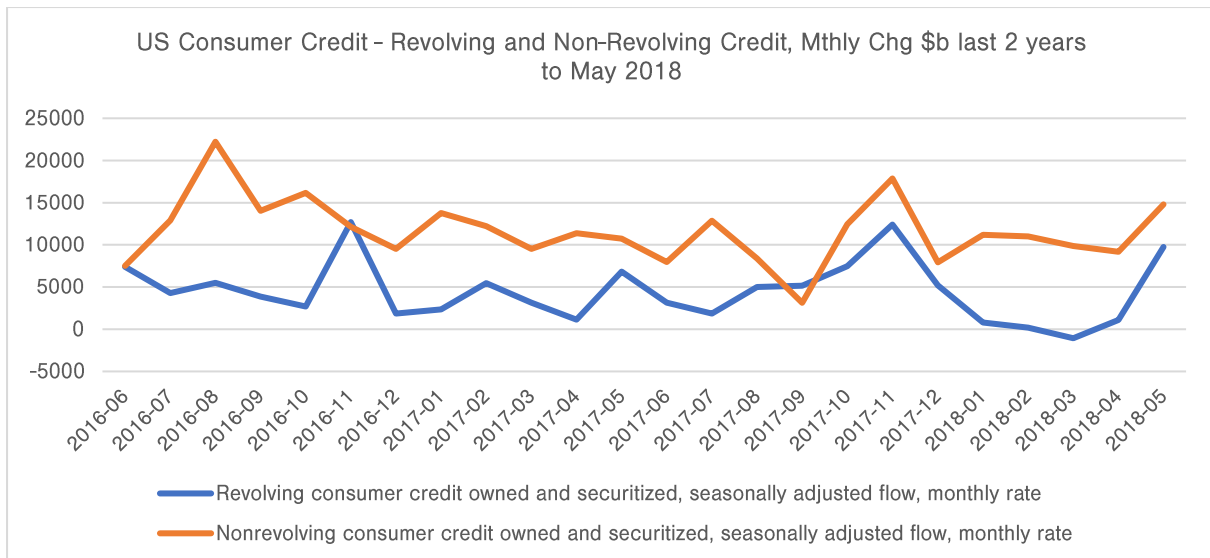
Monthly flow of Total Consumer Credit +\$24.6b May versus \$10.3b April



The increase in the latest month was the result of acceleration in both revolving and non-revolving credit;

Revolving Credit; May +\$9.7b versus April +\$1.1b

Non-Revolving Credit; May +\$14.8b versus April +\$9.2b



<https://www.federalreserve.gov/releases/g19/current/default.htm>

JOLTS Data (May)

A slight decline in job openings in May, a small increase in hires and little change in separations – fairly steady month.

Job openings declined slightly, but remain close to the series high;

May 6.6m versus April 6.8m (revised up from 6.7m)

The job opening rate fell from 4.7% in April to 4.3% in May

**Chart 1. Job openings rate, seasonally adjusted,
May 2015 - May 2018**



The change in job openings was the result of a -228k decline in private job openings and a small increase in public/govt.

On a regional basis, most regions experienced a decline in job openings, but the NorthEast and the West recorded the larger declines.

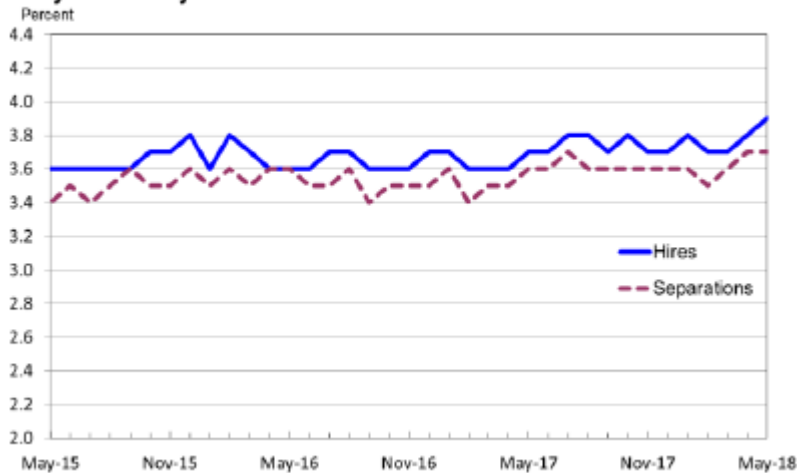
Total hires were slightly higher in the month;

May 5.7m versus April 5.6m

The total hire rate continued to increase from 3.8% in April to 3.9% in May.

The South and MidWest continued to see increases in hire rates.

**Chart 2. Hires and total separations rates, seasonally adjusted,
May 2015 - May 2018**



Total separations were virtually unchanged in the latest month;

May 5.46m versus April 5.42

The total separation rate was unchanged at 3.7%

On a regional basis, separations moved higher in the South and MidWest, declined in the West and was unchanged in the NorthEast.

<https://www.bls.gov/news.release/pdf/jolts.pdf>

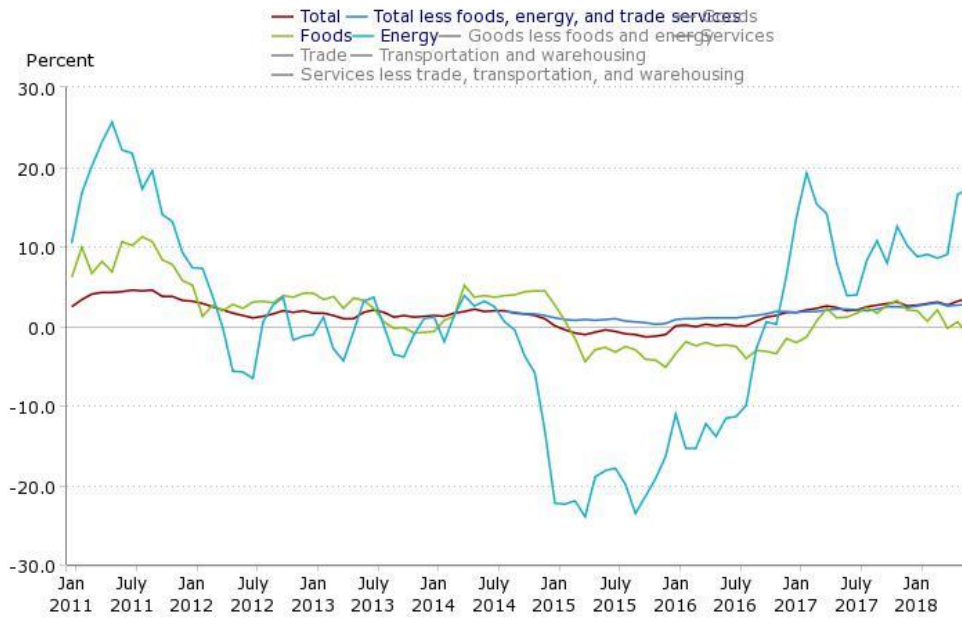
PPI (June)

Producer prices for final demand continued to increase in the latest month; June +0.3% versus May +0.5%. The monthly increase in June was driven by increases for services +0.4% versus goods +0.1%.

On an annual basis, producer prices for final demand increased by 3.4% in June versus +3.1% May. PPI for final demand (goods) +4.3% (and represents approx 33% of the index weight) versus final demand (services) +2.8% (and represents 65% weight of the index).

Annual growth in final demand prices for goods +4.3%; price changes in food and energy are moving in the opposite direction with final demand foods -1% and final demand energy prices +17.2% (both at June 2018).

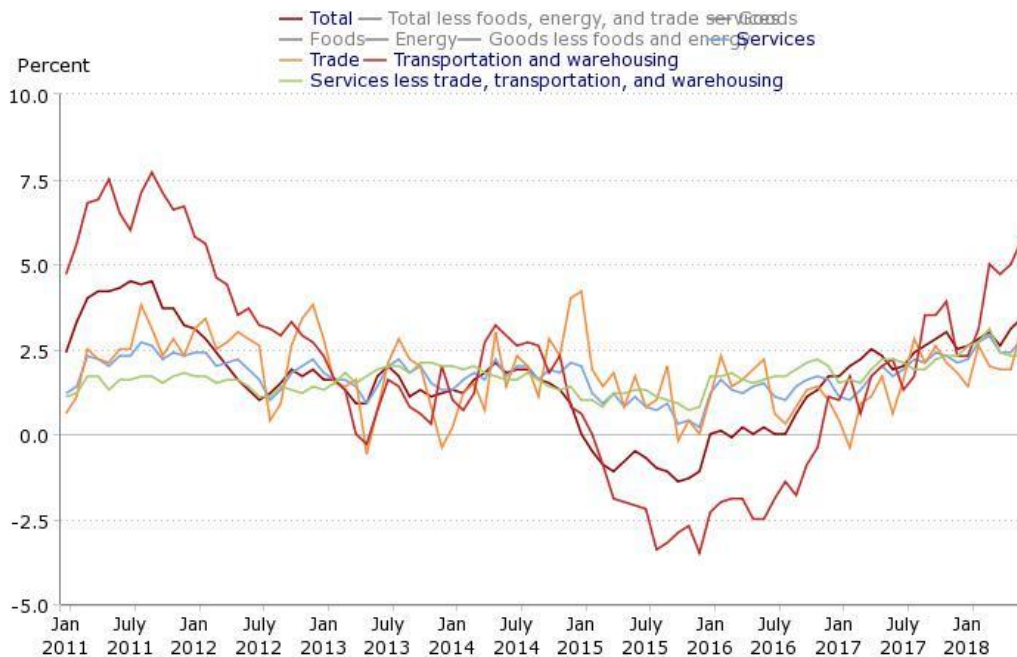
PPI for final demand, 12-month percent change, not seasonally adjusted



Hover over chart to view data.
 Source: U.S. Bureau of Labor Statistics.
 All data are subject to revision 4 months after originally published.

The bulk of the PPI is made up of services (65% weight). Annual change in final demand prices for services +2.8%. Driven predominantly by transportation and warehousing +5.7% (not the bulk of the index though), whereas trade services +3.1% and all other services (which is 40% of the index) growing at an annual rate of +2.3%. The chart below highlights just how much price changes for services less trade, transport and warehousing (green line) is lagging the broader index.

PPI for final demand, 12-month percent change, not seasonally adjusted



Hover over chart to view data.
 Source: U.S. Bureau of Labor Statistics.
 All data are subject to revision 4 months after originally published.

<https://www.bls.gov/news.release/pdf/ppi.pdf>

Wholesale sales and inventory (May)

Monthly wholesale trade and inventories both continued to rise in the latest month;

Wholesale sales +2.5% May versus +1.4% April (revised up from 0.8%)

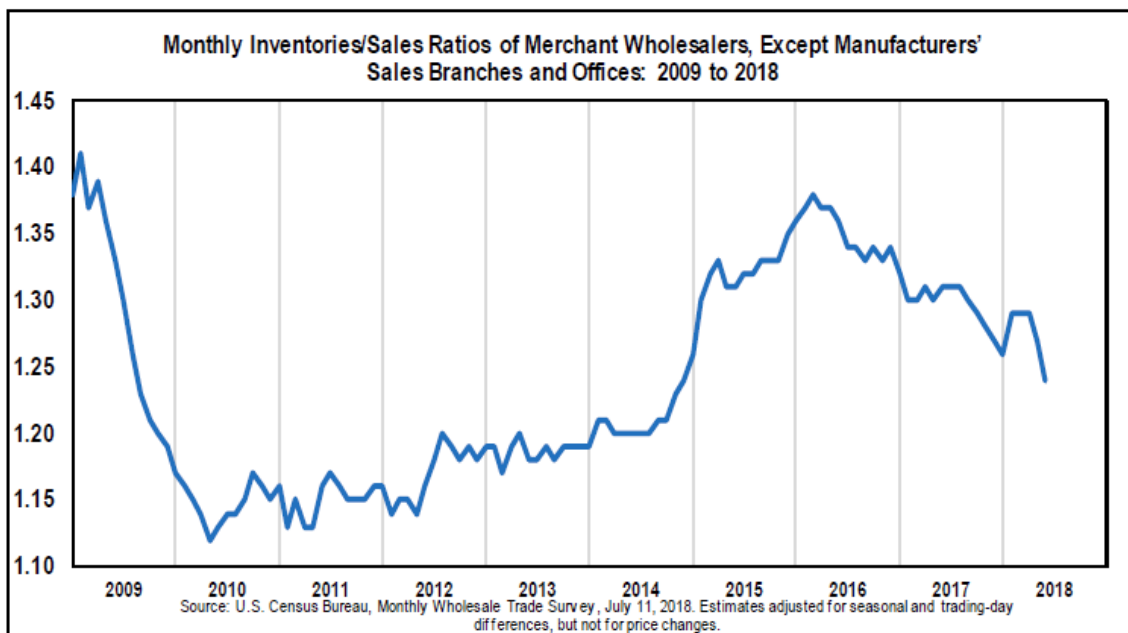
Non-durable goods led sales higher overall, mostly on the back of higher petroleum sales, which accounted for approx. 40% of the increase in wholesale sales in the latest month.

Inventories also increased; +0.6% May versus April +0.1%

The increase in inventories was even split between durable and non-durable goods.

Despite the increase in inventories, the sales/inventory ratio continues to fall;

May 1.24 versus April 1.28 and versus May 2017 1.31. The all time low in the sales/inventory ratio was 1.12 (June 2008 and Apr 2010)

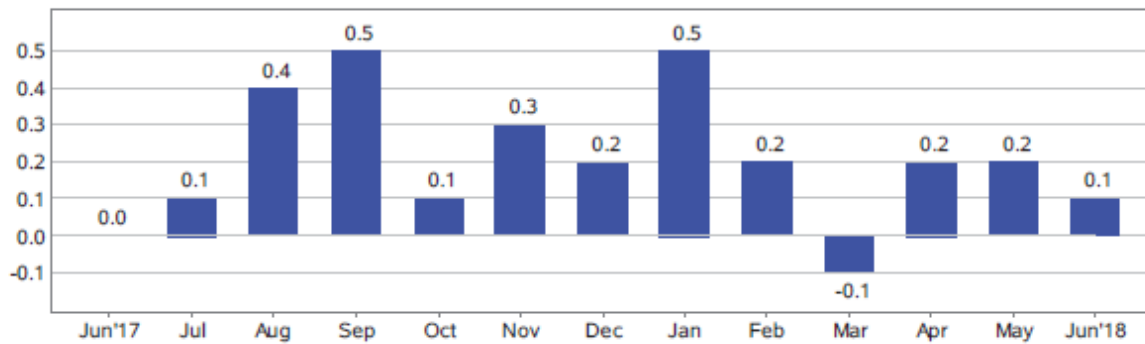


<https://www.census.gov/wholesale/pdf/mwts/currentwhl.pdf>

Monthly CPI (June)

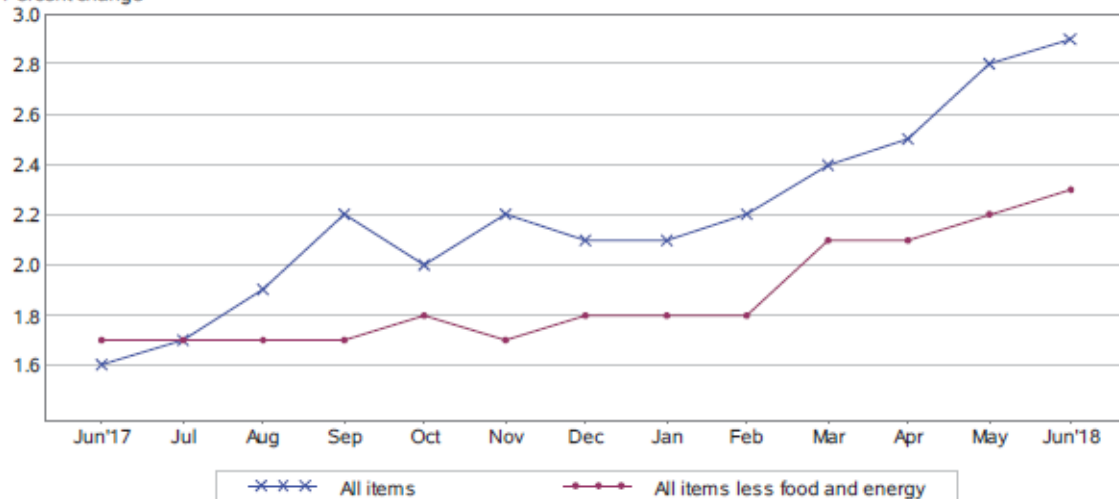
In the latest month, headline CPI continued to grow, but at a slightly slower pace than the prior month; June +0.1% versus May +0.2%

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, June 2017 - June 2018
Percent change



The annual growth rates for both headline and core CPI continue to accelerate;

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, June 2017 - June 2018
Percent change



The annual headline CPI growth; June +2.9%

Energy prices continue to be a driver of higher headline CPI growth; annual + 12%; approx. 8.1% index weight accounting for 33% of the price increase for the year. In the latest month though, the seasonally adjusted change in total energy costs was -0.3% (energy commodity prices continued to rise while electricity and gas declines off-set).

Annual change in Food prices of +1.4% continues to be below the headline rate. Again, food accounts for approx. 13% of the index weight and has contributed approx. 6.5% of the change in the CPI.

Annual CPI ex food & energy; June +2.3%

The main contributor to the increase in CPI ex energy and food was services less energy services. **Services account for approx. 59% of the index weight** and contributed a similar proportion to the change in CPI (62% of the change in CPI).

Commodities less food and energy commodities on the other hand make up approx. 19% of the index weight and contributed -1.6% to the change in the CPI.

<https://www.bls.gov/cpi/home.htm>

Michigan Consumer Sentiment (July prelim)

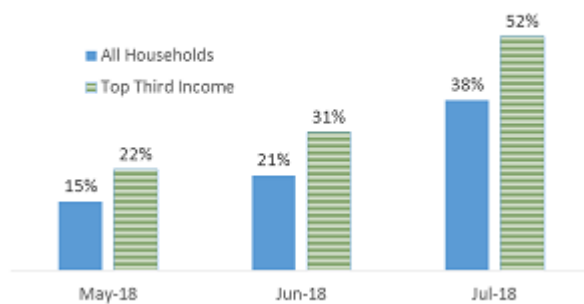
Measures of consumer sentiment dipped slightly in the latest month but remain close to the current 12mth average of 97.7.

Preliminary Results for July 2018;

	Jul 2018	Jun 2018	Jul 2017	M-M Change	Y-Y Change
Index of Consumer Sentiment	97.1	98.2	93.4	-1.1%	+4.0%
Current Economic Conditions	113.9	116.5	113.4	-2.2%	+0.4%
Index of Consumer Expectations	86.4	86.3	80.5	+0.1%	+7.3%

Favourable job and income prospects have so far outweighed higher inflation and interest rates. But some concern emerging about the impact of tariffs on the domestic economy.

Negative References to Potential Impact of Tariffs



<http://www.sca.isr.umich.edu/>

US Fed Monetary Policy Report

Monetary Policy Report submitted to the Congress on July 13, 2018, pursuant to section 2B of the Federal Reserve Act

<https://www.federalreserve.gov/monetarypolicy/2018-07-mpr-summary.htm>

US Federal Reserve Speeches:

FOMC Kashkari speech – Land Data for Promoting Indian Business and Homeownership on Reservations Event

<https://www.minneapolisfed.org/news-and-events/presidents-speeches/neel-kashkari-at-the-land-data-for-promoting-indian-business-and-homeownership-on-reservations-event>

NY Fed President Williams

Discussion with Brooklyn business, community, education, and government leaders about issues related to the local economy and efforts around community and workforce development, in Brooklyn, NY, with audience Q&A.

Philadelphia Fed President Harker interview – Bloomberg

A few highlights;

Watching services inflation most closely – “dominant part of the US economy is services”

Comfortable staying at 2.5% PCE inflation, but it’s a question of the level of acceleration

Looking for 3 rate increases this year and could support a fourth if the data/economy warrants. Supports a ‘gradual’ approach to increases.

Fourth move this year dependent on inflation

<https://www.bloomberg.com/news/videos/2018-07-12/fed-s-harker-says-would-be-comfortable-with-inflation-moving-to-2-5-video>

Dallas Fed President Kaplan

<https://www.reuters.com/article/us-usa-fed-kaplan-quotes-highlights/feds-kaplan-speaks-with-reuters-on-trade-rate-hikes-idUSKBN1K32SB>

Chicago Fed President Evans

<https://www.wsj.com/articles/transcript-wsj-interview-with-chicago-fed-president-charles-evans-1531303200?mod=djemCentralBanksAlertPro&tpl=cb>

Fed Chairman Powell – first broadcast interview

The interview covers a range of topics including risks, transparency, regulation, the economy and reiterates the political independence of the development of monetary policy.

In recent speeches, Chairman Powell has mentioned the importance of financial stability, or the risk of financial instability, and has been spoken about it in a similar vein as price stability and full employment mandates. Chairman Powell continues along those themes in this interview;

“Congress has given us these jobs, really important jobs, which are, you know, maximum employment, stable prices, regulate the banks, protect the consumers and look after financial stability”

“So, we're returning rates to a more normal level. If we leave rates too low for too long, then we can have too high inflation or we can have asset bubbles or housing bubbles”

It provides us with some possible insight with regard to how the Fed may go about assessing the environment in order to set interest rates (ie rates too low for too long could cause instability and problems in other parts of the economy).

<https://www.marketplace.org/2018/07/12/economy/powell-transcript>

Recommended reading on the perspective of the new Fed chairman;

<http://ffwiley.com/blog/2018/06/25/the-fed-just-made-its-most-hawkish-turn-in-30-years-did-anyone-notice/>

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Europe

ECB President Draghi – Hearing of the Committee on Economic and Monetary Affairs of the European Parliament

President Draghi reviews the stance on monetary policy (after Sept) and the future of the economic and monetary union. Overall, he paints a fairly optimistic picture on the state of growth and inflation;

“While uncertainties related to global factors, including the threat of increased protectionism, have become more prominent, the risks surrounding the euro area growth outlook remain broadly balanced”

Growth – expected to average +2.1% in 2018, current qtr +0.4%

Inflation – higher in flash est for June but ex energy and food, inflation slowed to 1%. Econ growth will ensure slack in the econ is reduced, supporting wage growth and higher underlying inflation. “Our confidence in the inflation path is rising”.

He reiterated that the ECB still plans to reduce its monthly net asset purchases from €30 billion to €15 billion in Sept and will end net asset purchases at the end of December.

Policy to remain accommodative - Reinvestment of principal payments will continue for an extended period and interest rates to remain at current levels until at least summer 2019 and as long as necessary.

<http://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180709.en.html>

German trade balance (May)

There was a small decline in the German trade balance in May versus the month prior and versus the same month a year ago. On a YTD basis, the trade balance increased slightly;

Versus a month ago; May EUR19.7b versus April EUR20.1b – both exports and imports were lower than in the prior month, but exports declined slightly more than imports.

Versus a year ago; May 2018 EUR19.7b versus May 2017 EUR21.8b – the result of lower exports, but higher imports versus same month year ago.

In the Jan-May YTD period, the trade balance widened slightly; Jan-May 2018 EUR99.9b versus Jan-May 2017 EUR99.2b – this was the result of higher exports and higher imports.

The decline in export value in May (versus May 2017 was the result of a decline of 6.4% in exports to third countries (non-Eu member states) and only a +0.2% annual growth.

Groups of countries				
Item	May 2018	January to May 2018	change on	
	billion euro		May 2017	January to May 2017
			%	
Total exports	109.1	547.4	-1.3	3.2
including:				
EU Member States	65.7	328.9	2.4	5.3
Euro-zone	40.8	208.2	0.1	6.0
Non-euro-zone	24.9	120.7	6.5	4.0
Third countries	43.4	218.5	-6.4	0.2
Total imports	89.4	447.5	0.8	3.8
including:				
EU Member States	51.8	257.3	2.9	4.9
Euro-zone	32.9	166.7	0.6	4.9
Non-euro-zone	18.9	90.6	7.0	5.0
Third countries	37.6	190.1	-1.9	2.2

https://www.destatis.de/EN/PressServices/Press/pr/2018/07/PE18_248_51.html

German and EU Zew indicator of economic sentiment (June)

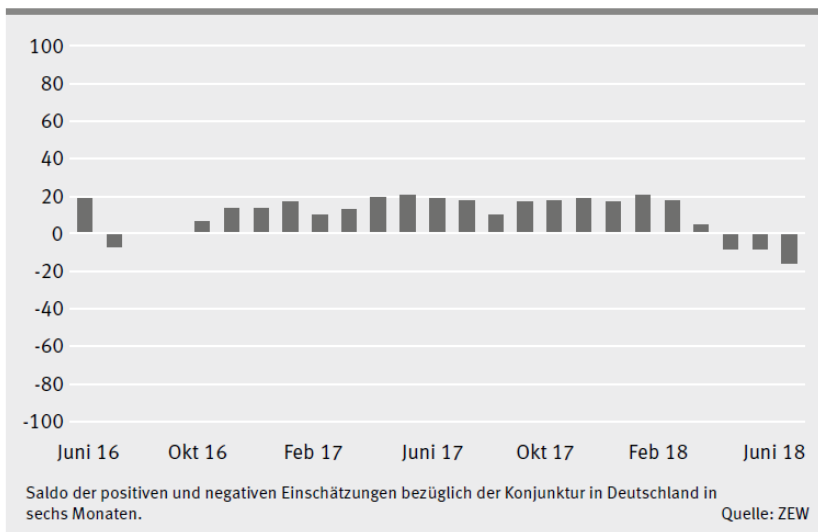
Given the soft patch in Europe and the threat of US tariffs on major European exports, this is an important insight into economic sentiment.

The Zew survey is produced in German (pdf link below).

Using Google translate, the headline for this month “Konjunkturausblick verschlechtert sich deutlich” translates into “Economic outlook deteriorates significantly”.

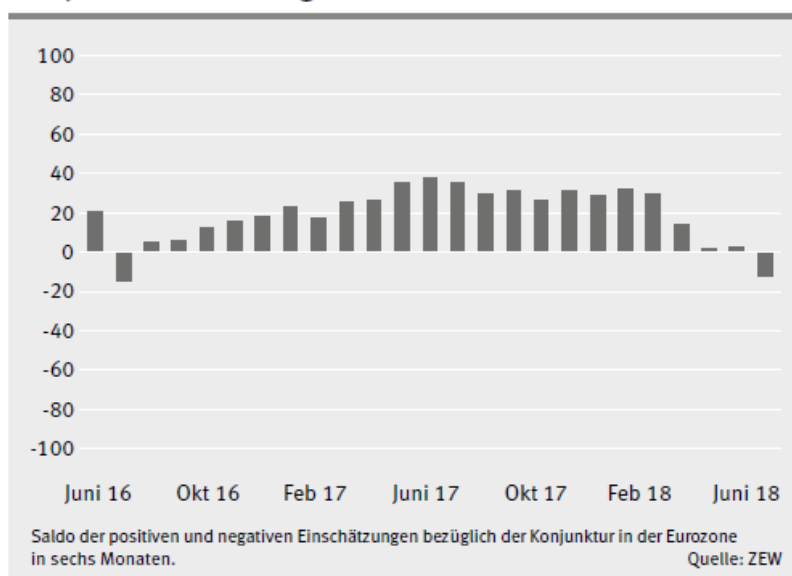
The charts for the June read on economic sentiment are quite telling with German economic expectations falling further into negative territory and now at the lowest level since 2012;

Konjunkturerwartungen Deutschland



The headline for the Eurozone sentiment translates into “Economic expectations are clearly clouding”. Economic sentiment index for the eurozone also deteriorated in June, falling by 14.1 points to a new level of -11.7 points.

Konjunkturerwartungen Eurozone



<http://ftp.zew.de/pub/zew-docs/frep/072018.pdf>

German CPI (June – final result)

Consumer price increases were confirmed from the provisional result; June +0.1% versus May +0.5%

Annual rate of inflation; June +2.1% versus +2.2% May.

The CPI continues to be led higher by energy costs – Annual growth in energy +6.4% June versus May +5.1%. Again, in annual terms heating oil prices +30.3% at June – although off a low base. Motor fuel prices +11.3%. The price changes for other energy products were smaller e.g. electricity +1.2%, charges for central and district heating +0.9%, gas –1.6%.

Excluding energy prices, the inflation rate would have been +1.6% in June 2018.

Excluding food and energy prices, the inflation rate would have been +1.4% in June 2018

https://www.destatis.de/EN/PressServices/Press/pr/2018/07/PE18_255_611.html;jsessionid=39BBAE96E39D52A91B5F174FDB4B96D0.InternetLive2

Eurozone Industrial Production (May)

Eurozone industrial production bounced back in the latest month after a disappointing April result;

Latest month; May +1.3% versus April -0.9%

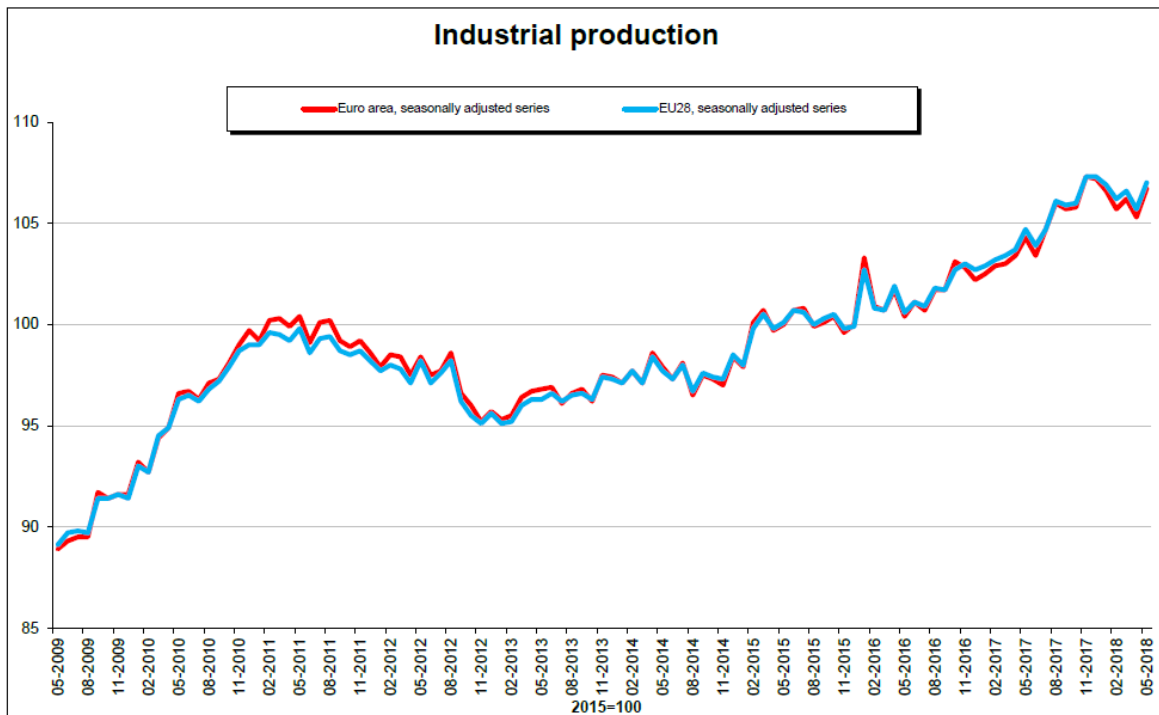
In context of the bigger trend, the annual rate of industrial production increased, but is still well off the high of +5.1% recorded in December 2017;

Annual rate; May +2.4% versus April +1.7%

The improvement in the month was the result of growth in production across a broad range of categories;

Intermediate goods recorded the first positive increase of the year, energy was relatively stable, capital good grew but at a slightly slower pace and durable and non-durable goods reversed declines from the previous month.

From a country perspective, the major industrial producers mostly all recorded growth again in the latest month (Germany, Spain, Italy, France, Poland) – industrial production in the UK continued to decline in May (-0.4%).



<http://ec.europa.eu/eurostat/documents/2995521/9074366/4-12072018-AP-EN.pdf/640707d0-acc3-47eb-9371-ceb3c9c7ab0d>

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Japan

Industrial Production (May - revised)

Revised industrial production declined in the latest month; May -0.2% (prelim -0.2%) versus May +0.5% (revised from +0.3%).

Industrial production growth has been slowing since Feb 2018 and remains 4.2% above the prior year.

Shipments also fell in the latest month -1.6% but are still up 3.3% on the previous year.

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

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United Kingdom

Brexit

Foreign Minister Boris Johnson resigned within hours of David Davies (the Brexit Minister). Both resignations cite the Brexit plans (soft Brexit) as keeping the UK too close to the EU and the current status quo.

Brexit white paper published last Thursday. MP briefings took place throughout the weekend and the focus goes to several Parliament debates to take place this week.

“Brexiteer rebels are unlikely to have enough support in parliament to win a vote, but the debate will show how many in May’s party are prepared to vote against her at a time when some are looking to gather the numbers needed to challenge her leadership”

Negotiations with Brussels are currently suspended, and the UK House of Commons will be in recess after next week. The EU council summit ‘deadline’ for a deal is 18 October 2018.

<https://www.theguardian.com/politics/2018/jul/07/tory-mps-briefed-ahead-governments-brexit-white-paper>

<https://www.reuters.com/article/uk-britain-eu-may/may-warns-rebels-back-me-or-risk-no-brexit-at-all-idUSKBN1K412G>

BRC Like for Like Retail Sales (June)

This month, the World Cup helped lift sales of TV’s, BBQ’s and beers;

May Total Sales versus year ago +2.3%

May Like for Like sales versus year ago +1.1%

The 3mth avg for all categories +1.2% of which Food +1.7% and non-food +0.8% (versus year ago).

“In the end, June scored solid, but not sensational, sales” - With the low growth in HH income, positive sales growth is still a good result.

<https://brc.org.uk/retail-insight-analytics/retail-sales-reports/retail-sales-monitor/reports?id=27220>

Manufacturing and Industrial production (May)

In May, total production decreased by 0.4% compared with April 2018, led by falls in energy supply of 3.2% and mining and quarrying of 4.6%. Manufacturing increased by +0.4% in the month, only a slight improvement.

In the 3months to May, the index of industrial production fell by 0.6% versus 3mths to Feb 2018. Manufacturing fell by -1.2% and was offset somewhat by an increase in mining of +4.6%.

Figure 1: Index of Production in the UK

Seasonally adjusted, January 2008 to May 2018, UK



Source: Monthly Business Survey to Office for National Statistics

The chart puts the scale of current decline into perspective. Whilst production has grown steadily since 2013, it remains well below the levels seen in 2009.

Steady growth after Jan 2013 appears to have stalled recently and its difficult to say whether this is any change in the current trend. Suffice it to say that the recent falls in production appear to have continued into the second quarter.

Table 1: Index of Production headline growth rates and contributions, May 2018, UK

Description	% of production ¹	Month on previous month growth (%)	Contribution to production (% points)	Most recent 3 months on previous 3 months growth (%)	Contribution to production (% points)
IoP	100.0	-0.4	-0.36	-0.6	-0.56
Mining and quarrying	7.5	-4.6	-0.35	4.6	0.32
Manufacturing	72.6	0.4	0.29	-1.2	-0.90
air conditioning	12.6	-3.2	-0.39	-0.5	-0.06
Water supply, sewerage and waste management	7.2	1.2	0.09	1.1	0.08

Source: Office for National Statistics

Notes:

1. "% of production" column does not add up to 100 due to rounding.

Manufacturing makes up the majority of the production index – approx. 73%. While there was a slight uplift in manufacturing production this month, overall in the 3 months to May, manufacturing has made a negative contribution to production growth.

Economic downturn Figure 2: Index of Manufacturing in the UK

Seasonally adjusted, January 2008 to May 2018, UK



Source: Monthly Business Survey to Office for National Statistics

<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofproduction/may2018>

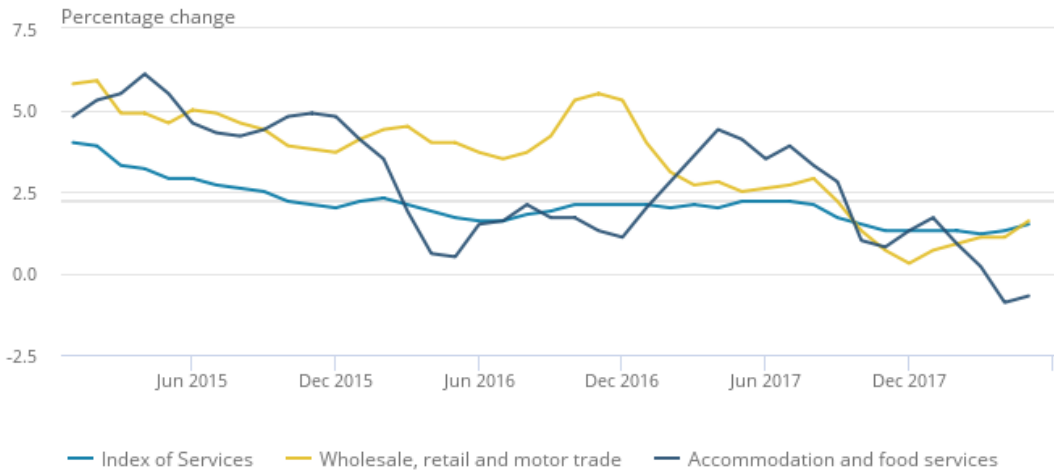
Index of Services – May

Offsetting the continued slow down in UK production, the index of services continued to grow in the latest 3months to May; +0.4% versus the 3months prior. Services also grew in the latest month +0.3% in May versus April.

On an annual basis services output increased by +1.5% in the 3mths to May (versus year ago) – and was at least a small uptick in growth;

Figure 4: Three-month on a year ago Index of Services growth between January 2015 and May 2018

UK



Source: Office for National Statistics

Growth was weaker in two consumer-facing sectors - accommodation and food services, driven by food and beverage activities

<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofservices/may2018>

UK Monthly est of GDP (May)

The first report using the rolling monthly estimate of UK GDP was released – growth in the 3mths to May was +0.2% - this is on par with the final Q1 2018 rate of growth.

In the latest 3 months to May, growth was the result of increases in services (0.34%pt contribution) and continued falls in production (-0.08%pts contribution), construction (-0.1%pt contribution) and nil contribution from agriculture.

Figure 1: Three-month growth to May increased at the same rate as in Quarter 1 (Jan to Mar) 2018

GDP growth, quarter on quarter and three-months on previous three-months

Figure 1: Three-month growth to May increased at the same rate as in Quarter 1 (Jan to Mar) 2018

GDP growth, quarter on quarter and three-months on previous three-months



What this doesn't show is that in the 3months to May, there appears to be at least some improvement in each of the months, especially for construction and agriculture (which had made negative/zero contributions to growth in the final Q1 data);

Table 1: Breakdown of GDP growth rates by month

	Mar-18	Apr-18	May-18
GDP	0.0%	0.2%	0.3%
Index of Services	0.2%	0.4%	0.3%
Index of Production	-0.3%	-1.0%	-0.4%
Construction	-1.8%	0.0%	2.9%
Agriculture	-0.2%	0.1%	0.2%

Source: Office for National Statistics

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2018>

Bank of England Credit Conditions Survey Q2 2018

<https://www.bankofengland.co.uk/credit-conditions-survey/2018/2018-q2>

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Canada

Bank of Canada – Rates Decision

The Bank of Canada raised its overnight target rate to 1.5% - the bank rate 1.75% and the deposit rate 1.25%

It is the second interest rate hike this year and fourth increase over the past 12 months.

BoC cites the possibility of more trade protectionism as the most important threat to current global prospects.

Canadian economy operating close to capacity. It expects HH spending to remain dampened by higher interest rates and tighter mortgage lending guidelines. Business investment to continue to grow in response to capacity pressures. Export growth on the back of higher demand and higher commodity prices.

CPI growth remains close to 2% - “consistent with an economy that is operating at close to capacity”. Wage growth around 2.3%, “slower than would be expected in a labour market with no slack”.

Higher interest rates warranted to keep inflation near target, gradual approach to increases guided by incoming data.

Monitoring the adjustment to higher interest rates and the evolution of capacity and wage pressures, as well as the response of companies and consumers to trade actions.

<https://www.bankofcanada.ca/2018/07/fad-press-release-2018-07-11/>

<https://www.bankofcanada.ca/core-functions/monetary-policy/key-interest-rate/>

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Australia

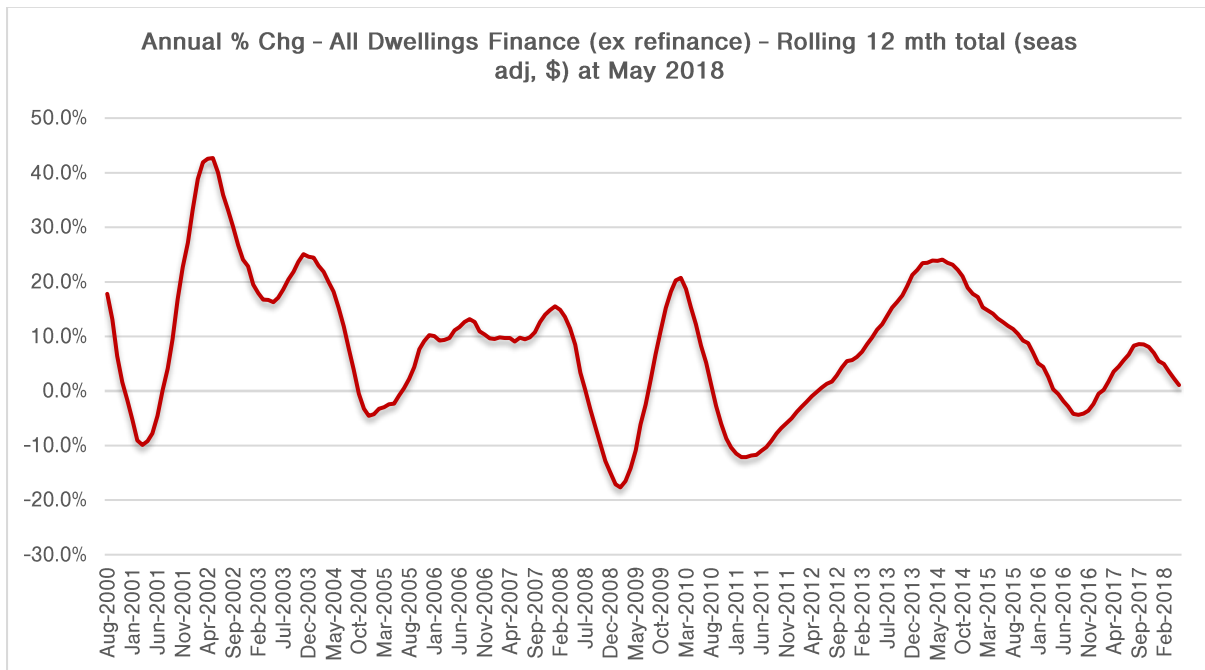
New housing loans (May)

Lending for housing fell again in the latest month. All dwellings finance ex refi's;

Current mth versus the same month prior year; May -5.3% versus April -5.9%

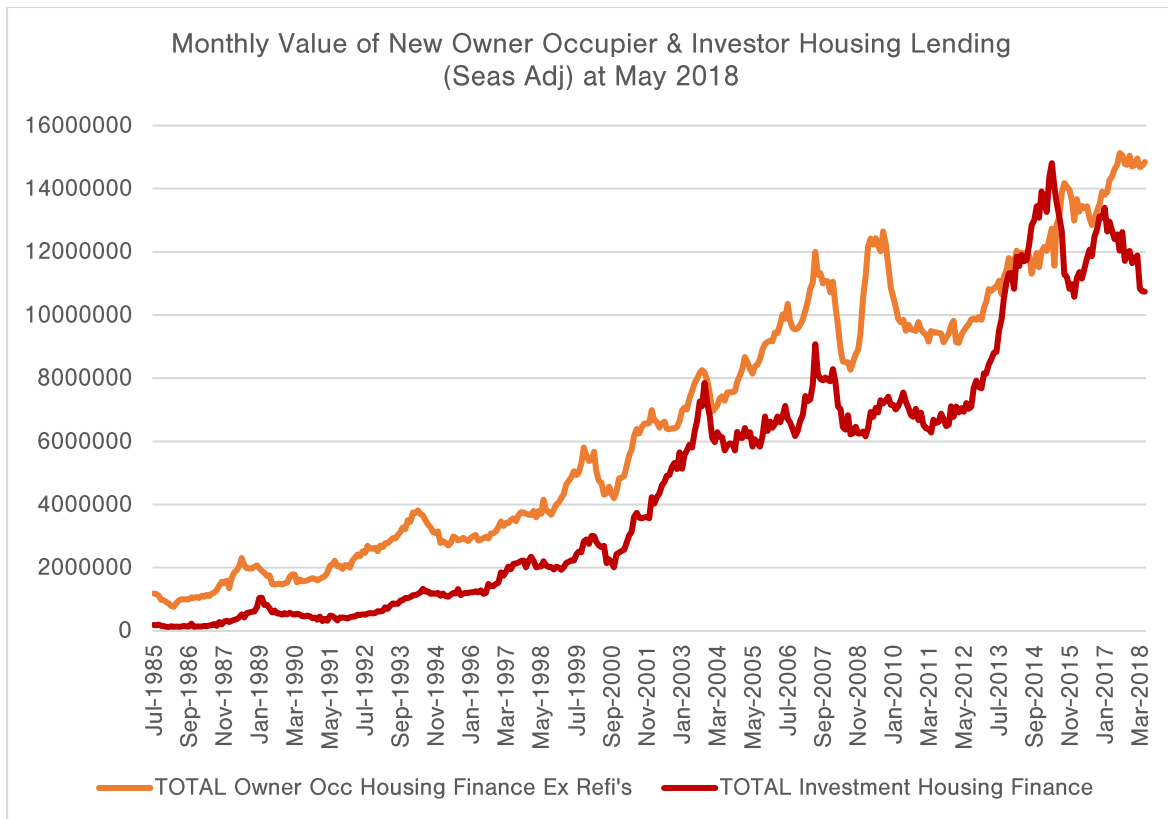
On an annual basis (last 12mths v 12mths prior), all dwellings finance ex refis is growing at 1.1% (+4.5% May 2017 and peaking late 2017 around 8.6%)

The current month value of housing lending has fallen to -2SD of the 20mth SMA – so the slow-down is material.



The slow-down in housing lending and house prices in Australia is important. Mortgages represent over 60% of all outstanding debt in Australia, bank lending is highly concentrated in mortgages, mortgage debt to GDP is at extreme highs. At the same time, mortgage growth has taken place while interest rates were at extreme lows and there has been record low growth in wages. There is evidence of weakening lending standards by banks.

Since mid-2011, interest only lending (all housing lending actually) started to accelerate, partly the result of a series of RBA rates cuts, reaching a point where new interest only loans were larger than lending for owner occupiers.



As of May 2018, the current value of the stock of outstanding mortgages in Australia is \$1.75t – approx. 62% of all outstanding private debt. Interest only mortgages represent approx. 33% of outstanding mortgages (Source: RBA)

Currently, there appears to be some funding pressures for Australian banks. Out of cycle interest rate increases are occurring (the smaller ADI's) eg AMP this week raised mortgage rates 8bps for P&I loans and 17bps for I-O loans. The relatively small deposit base in Australia means banks need to borrow on wholesale debt markets to fund lending. The rates for these funds have been going up – which means we are possibly at the start of a tightening cycle. This may make it difficult to refinance to more favourable terms. RBA intervention may be likely.

We are also now in an environment where house price growth is slowing (flat) – again possibly posing challenges to refinancing and realising capital appreciation to pay off loans.

<http://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/05DBCE56402EC566CA25723D000F2999?OpenDocument>

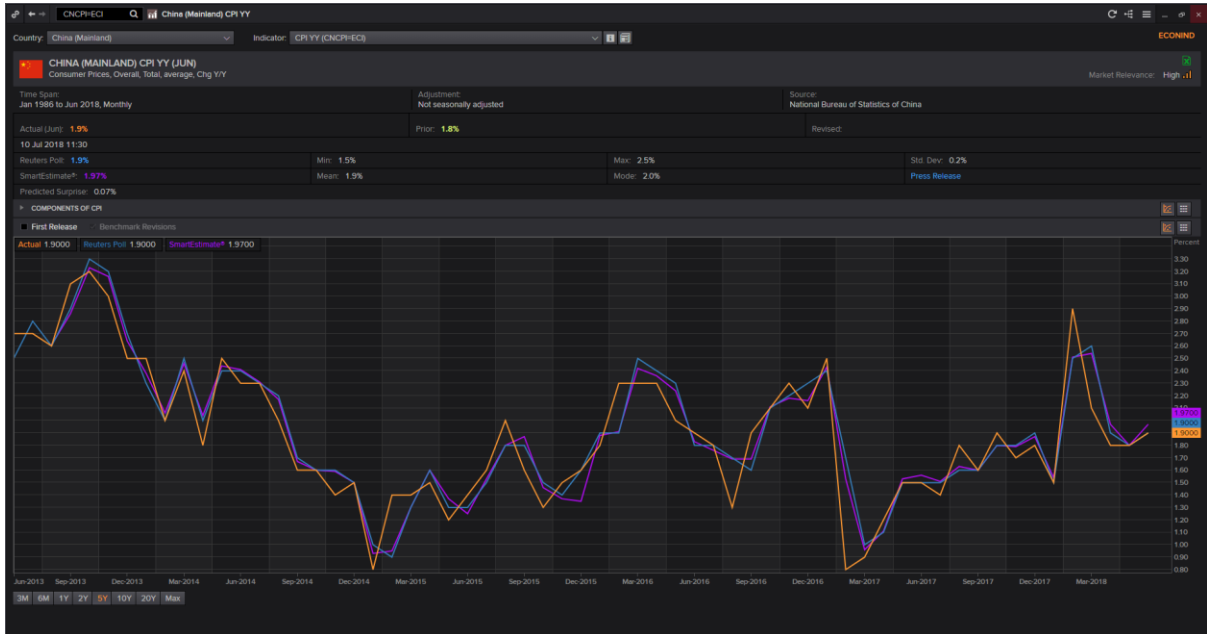
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Other

CHINA - CPI and PPI (June)

CPI grew at an annual pace of +1.9% in June versus +1.8% in May

Month on month; June -0.1% versus May -0.2%



Producer prices increased by +4.7% in June versus +4.1% in May

<https://www.reuters.com/article/china-economy-inflation/china-june-ppi-up-4-7-pct-tops-forecasts-cpi-up-1-9-pct-idUSZZN02CC7E>

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Trade

US-China Trade Negotiations -

The second wave of US tariffs – affecting \$16 billion of Chinese goods focused on semiconductors and electronics – is subject to a **review scheduled for 24th July 2018**.

Early on 10 July, China's Ministry of Commerce announced that it will raise its anti-dumping duties on imported optical fiber from the US to 33.3%-78.2% from previous 4.7%-18.6%, effective on Wednesday.

Later, on 10 July, the USTR announced a further investigation and proposal for an additional 10% tariff on \$200b in trade value with China. **Public hearings are proposed for 20-23 August**.

https://ustr.gov/sites/default/files/301/2018-0026%20China%20FRN%207-10-2018_0.pdf

Car and Truck Imports –

Public hearings will take place next week 19 July in Washington on the Section 232 action to determine whether imports of autos, light trucks, and auto parts threaten to impair the national security.

US-Japan trade talks in July –

First round of trade talks likely to occur late July in Washington.

Implications for Japanese automakers and for trade negotiations of the US investigation into car and truck imports - one of Japan's major exports to the US.

It's unclear whether the results of the section 232 investigation will be released before the trade talks.

NAFTA –

Negotiations are likely to remain in limbo as the new incoming President of Mexico, Andrés Manuel López Obrador, prepares to take office in December. Current Mexican President Peña Nieto and Lopez Obrador made it clear last week that they will wait for Mexico's electoral court to validate the vote, which could be as late as Sept. 6, before beginning the official transition.

U.S. Secretary of State Mike Pompeo, Treasury Secretary Steven Mnuchin and Trump adviser Jared Kushner are scheduled to visit Mexico on Friday and meet with Mexican Foreign Minister Luis Videgaray, President Enrique Peña Nieto and President-elect Andres Manuel Lopez Obrador.

Canadian Foreign Affairs Minister Chrystia Freeland expects negotiations to take a “higher gear” over the summer.

Steel Tariffs –

Canada considering quotas and tariffs on steel imports (protecting local steel producers) originally earmarked for US markets. “US tariffs opens the door to cheaper steel imports into Canada) from abroad”

EU considering similar antidumping measures.

Canadian tariffs on US imports went into effect 1st July – approx. \$12.6b in imports from the US including steel, aluminium, and consumer goods.

Canada is threatening further action if the US goes ahead with threatened duties on Canadian-made autos and auto parts – this will be a large threat for the Canadian (and other) economies, especially Europe.

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