

Friday, 07th June 2019

Morning Round Up

US trade and non farm payrolls

US Vice President, Mike Pence, has warned that tariffs on imports from Mexico will come into effect on Monday, should talks fail today in Washington. There has been some optimism over the past several days following reports that the US administration is considering delaying the tariffs to give Mexico time to reach a resolution. However, despite Pence being encouraged by the progress made by both sides, tariffs are still set to be implemented on Monday. Immigration remains the major issue according to Trump. The US president is seeking more stringent control of Mexico's borders, both North and South, to stem the tide of immigrants passing through the country on the way to the US. If the 5% tariff is triggered but Mexico follows through on promises to crack down on migration, the duties will be short lived according to reports.

Separately, Non Farm payrolls will be the economic reading to watch this afternoon. Consensus forecasts are for 185k jobs to be created in May, a notable drop from the 263k number in April. Expectations are for the participation rate to pick up to 62.9% (previously 62.8%) and for average hourly earnings to increase by 0.3% (previously 0.2%) month on month. The consistent downward trending economic data over the past several months increases the importance of today's release.

Governing Council decision a mixed bag

The Euro strengthened against the Dollar on the release of the Governing Council's decision. The decision included a number of points. Firstly on interest rates, there was no change made to its key interest rates as expected. However, there was a change to the language used to indicate when the ECB intends to begin rates from "through to the end of 2019" to "at least through the first half of 2020". In regard economic forecasts, the Governing Council have increased its 2019 projections by 0.1% and decreased its 2020 and 2021 projections by 0.2% and 0.1% respectively. Similarly, Euro Area inflation expectations were 1.3% in 2019 (+0.1%) and 1.4% in 2020 (-0.1%). Finally, the terms of newest round of Targeted Longer-term Refinancing Operations (TLTRO) was not as generous as the previous program. The market's initial reaction to the announcement saw this as more hawkish (less dovish) than had been expected, which saw the yield on a 10-year German Bund rise to -19bps. However, this was short lived as the press conference unfolded with the Bund finishing trading at -23.5bps. The sharp reversal in yields indicates the market has little faith in the ECB's ability to curtail the weakening trends in economic data or retains the tools to address a trade induced slowdown. The balance of risk continues to threaten to the downside and despite President Draghi's reference to capacity to reinstate quantitative easing, the market remains sceptical.

German 10 year yield over the past decade



Source: Bloomberg, CF Research June 2019

Key Upcoming Events

19/06/2019 FOMC Decision
20/06/2019 BoJ Decision

Market View

US markets finished higher yesterday as expectations of progress between the US and Mexico spurred risk on sentiment. Words of encouragement from the Governor of the People's Bank of China (PBOC) saw Asian equities higher overnight. Positive sentiment has continued into European markets this morning with markets opening higher. Expectations on the Fed's next rate move will be linked to this afternoon's Jobs report after a very weak ADP number earlier in the week. Theresa May steps down as the leader of the conservative party today, which will spark the contest for its next leader and likely next Prime Minister.

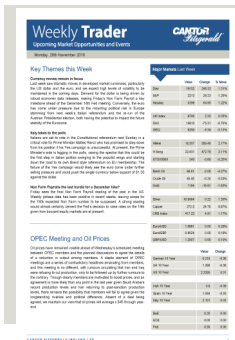
Market Moves

	Value	Change	% Change	% Change YTD
Dow Jones	25721	181.09	0.71%	10.26%
S&P	2843	17.34	0.61%	13.43%
Nasdaq	7616	40.08	0.53%	14.77%
Nikkei	20885	110.67	0.53%	4.35%
Hang Seng	26965	69.84	0.26%	4.33%
Brent Oil	63.08	1.41	2.29%	17.25%
WTI Oil	53.64	1.05	2.00%	18.12%
Gold	1335	-0.04	0.00%	4.12%
€/\$	1.1259	0.00	-0.15%	-1.81%
€/£	0.8858	0.00	-0.28%	-1.46%
£/\$	1.2711	0.00	0.13%	-0.34%

	Yield	Change
German 10 Year	-0.237	0.00
UK 10 Year	0.84	0.02
US 10 Year	2.1155	0.00
Irish 10 Year	0.29	-0.01
Spain 10 Year	0.574	-0.04
Italy 10 Year	2.40	-0.0850

Source: Bloomberg, CF Research June 2019

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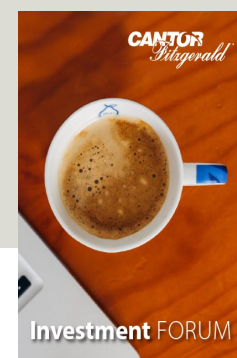
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