Conflicting signals in US

Week ending Friday November 24th 2017

A surprisingly lively week in markets. Equities rose again. The USD weakened. Anyone would think that markets were anticipating an easier monetary policy in the US. One problem is that the best performing equities are those with overseas earnings, not just due to translation benefits from that weak USD but also from strongly performing overseas economies. Another problem is that the yield curve continues to flatten, as the short end yields drive higher and long end yields stays weak. The 10yr less 2yr has now fallen below 60bps.

The yield curve is indicating a slowdown is a more likely, possibly leading to the weak USD despite the short end of the curve rising in anticipation of the Fed raising rates. It is almost as if in trying to raise rates the Fed is directly causing market rates to fall. No surprise to us Market Monetarists who know market expectations for nominal growth set rates not the Fed – even though the Fed’s beliefs are vital to those market rates, often it is not what the Fed wants.

Vacancy rate high – at the Fed

What the Fed will believe in the upcoming months is highly uncertain. Yellen confirmed she will step down once Jerome Powell is confirmed and sworn into the chair. The number of vacant seats at the FOMC will be at an all-time high of four out of seven, and will presumably be filled under the direct influence of Powell. A strong pro-business, pro-growth, bias seems likely – but bond markets remain very unstressed about any inflation pick-up as a result.

UK madly going “No Deal” Brexit would be very bad, but …

Euro Area economic news continues to impress as PMIs for October showed a lot of strength – backing up the news from the official data for 2017Q3 GDP.

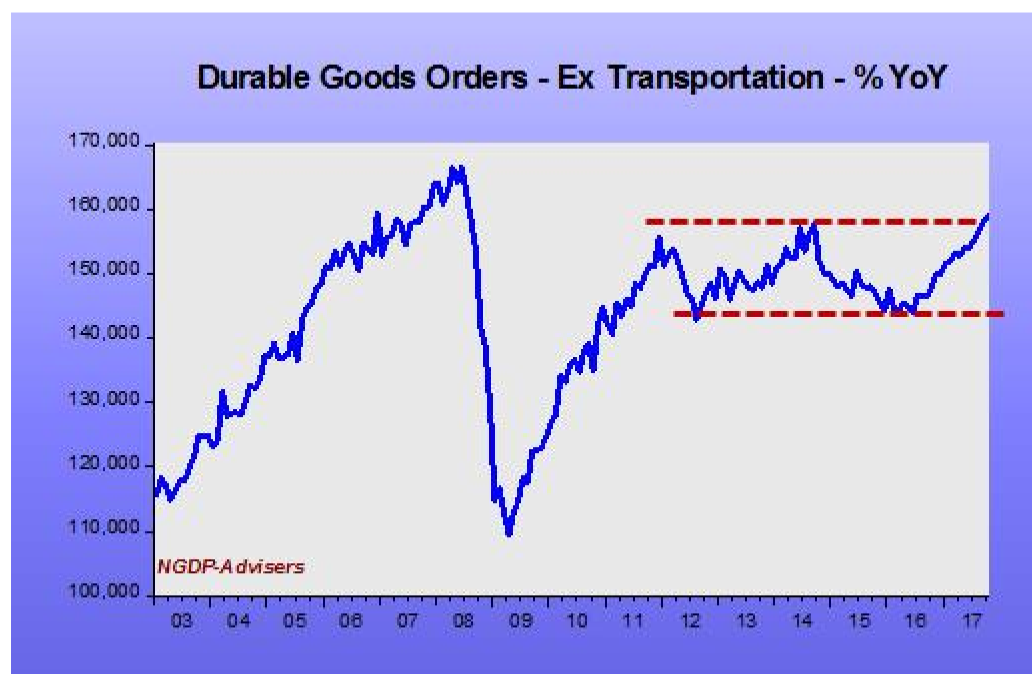
If there was ever a time for the UK to leave the EU in a chaotic, No Deal, bad sort of way, then it is now, as both the US and Europe are growing reasonably well. The 2017Q3 NGDP data from the UK

released this week with the 2nd estimate of RGDP was bad news.

Growth YoY dropped to 3.4%, with QoQ annualized growth a miserly 2.7%. This awful trend would be disastrous if the Bank of England were tightening monetary policy, but despite the efforts of Carney and his majority on the rate setting committee raising policy rates, the market expectations for rates are going the other way, effectively encompassing an ***easing*** of policy. The UK budget last week confirmed that policy was going to ease as fiscal policy was loosened – despite the downgrading of official RGDP growth expectations.

News

Data was mixed as October durable goods orders excluding transportation were weak for the month but there were a lot of upward revisions to earlier months, leaving YoY growth rising at a rate of 7%. The level story is not very encouraging, remaining close to the two most recent peaks and far below the level attained before the "Great Recession".



In contrast, the Markit November provisional PMIs for both manufacturing and services were weaker than expected and seemed to indicate a continuing slowdown.

Next week sees a lot more November surveys plus the October Personal Income and Expenditure figures as well as the second estimate of US 2017Q3 GDP, including the GDI estimate, that has a

strong influence influence on our NGDP Forecasts.