

Modest optimism returns but growth may not

Week Ending Friday June 8, 2018

Markets recovered some of their poise last weeks. Bond yields fluctuated but ended the week not much different from where they started and equities rallied reaching levels last seen in April. The back-on-again talks with North Korea beat the G7 discord, while expectations for the trade war merely fluctuated.

Growth seems to be disappearing in US a bit, elsewhere a lot

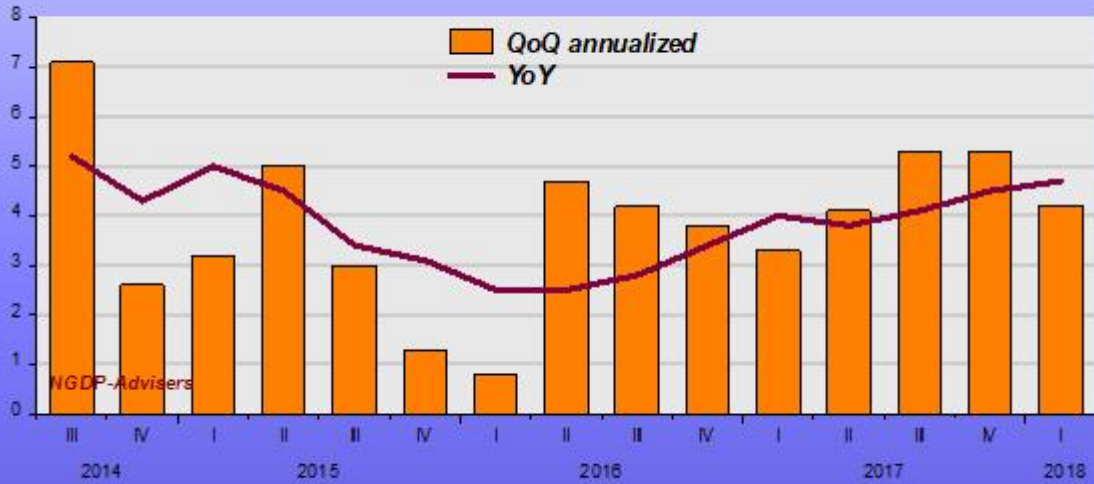
While NGDP growth in the US has appeared to accelerate into 2018Q1 with a high of 4.7% YoY, the best since 2015Q1, it isn't quite that good. There were two very strong quarters in 2017Q3 and Q4 before a big drop in the most recent quarter, QoQ. Generally, we don't like these noisy QoQ growth rates but the recent volatility is worthy of comment.

The recent weakness in both our own US NGDP Forecast 12m ahead and in growth in broad money aggregates is also reflected in the QoQ growth.

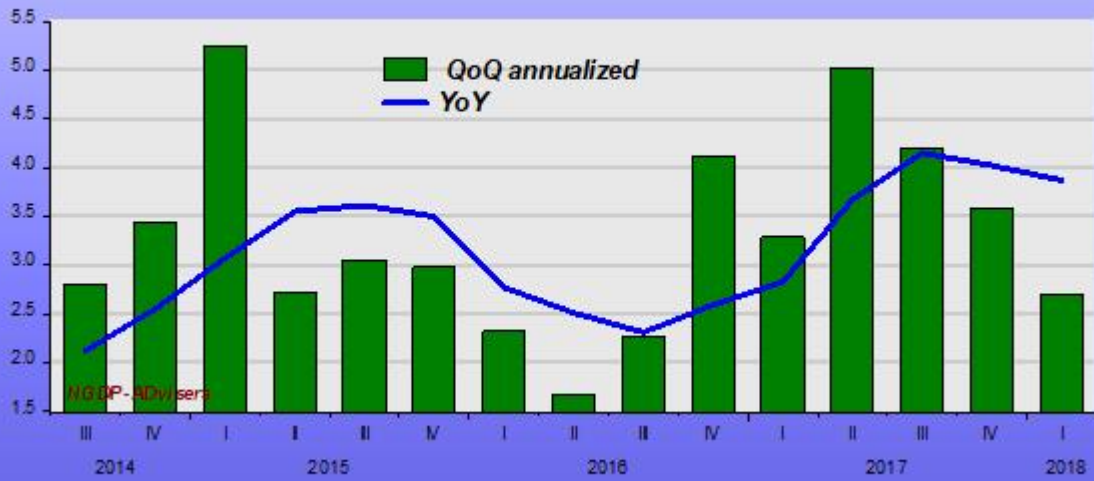
Intriguingly this is not just a US phenomenon. The Euro Area had a couple of surging QoQ growth rates in 2017, especially in the principal engine, Germany. These QoQ growth rates led to some historically impressive YoY readings in NGDP. The surge was somewhat mysterious; perhaps it was "peak Draghi". That surge has dissipated and given way to two poor QoQ readings for the Euro Area, especially Germany. And now we are also seeing consistently poor monthly surveys for Germany in the current 2018Q2.

Similar trends have been observable in Japan. The UK NGDP growth is so abysmal it is hard for yours truly to even chart.

US NGDP Growth - %



EZ NGDP Growth - %



Germany NGDP Growth - %



ECB succession issues

Fears over Draghi's successor, to take over in November 2019, are very evident as the ECB's QE programme winds down just as EU nominal growth rapidly decelerates.

The next ECB chief will not be known until June 2019 if the last appointment cycle is followed. The job is one of many top EU jobs that come vacant at around the same time and are allocated after a good deal of horse-trading amongst European leaders, and imply uncertainty until quite late in the day.

The fear factor comes from the fact that Jens Weidmann, a hard money nut, is the clear favourite to take over as chief. He may just be a sheep in wolf's clothing in order to get the job, but until he is in situ and backtracking from his public statements so far, no one will remain calm.

Data

Actual economic news during the week was very thin and added little. Next week is more interesting as May US CPI, retail sales and industrial production data are released,

Most attention will be in mid-week as we likely get the FOMC bot-like raising rates despite numerous red flags from both the US and around the world.

Still, if it is only the US for which they have regard, which is narrowly correct, then they may get away with more signals of tightening. The projections will be of most interest as will Powell's performance at the press conference. Last time out he appeared to have little time to expound any particular views, but felt certain that almost blindly raising rates was the right thing to do – for what purpose the markets were left largely in the dark.
