All quiet ahead of the beginning of (trade) war

Week Ending Friday June 22, 2018

A super quiet week in equities and bonds, with just a modest rebound in the USD during the week and in oil prices at the back end. This is somewhat surprising given all the trade tensions, but US markets seem to be taking the threat or even the actuality of tariffs in their stride. Emerging markets and heavily trade-dependent European ones like Germany are much more affected, as you would expect.

The positive trends, if not levels, in the US are still driving matters, offsetting trade tensions and political news. It is hard to see this changing in the near term even if with the slow squeeze on future expectations from Federal Reserve tightening. Our NGDP Forecast turned down a bit below 4% over the last week or so but is still in a tight range. A damage to world trade from a UK No Deal/Hard Brexit seems a significant threat but is still some way off.

Data last week

There was very little survey information or data released last week. The Philly Fed and the Markit Manufacturing PMI were weaker than expected for June, but the Markit Service PMI was good – a picture mirrored by readings from the EU. A mixed picture signifying little

Next week

The trade war with China and the rest of the world will continue to dominate headlines if not markets as the countdown before the 5th July introduction of the first round of anti-China tariffs are actually implemented and in turn trigger a Chinese response.

Next week promises to be busy for economic news too. Many surveys of current month activity get released. Amongst hard data there is the May Durable Goods report and May Personal Consumption Expenditure, Income and Inflation data. The final US GDP report of 2018Q1 also sees the release of GDI which we use as an important factor in our NGDP Forecasts.