

ON DECK FOR FRIDAY, JUNE 14

<u>Country</u>	<u>Date</u>	<u>Time</u>	<u>Indicator</u>	<u>Period</u>	<u>BNS</u>	<u>Consensus</u>	<u>Latest</u>
US	06/14	08:30	Retail Sales (m/m)	May	0.6	0.7	-0.2
US	06/14	08:30	Retail Sales ex. Autos (m/m)	May	0.4	0.4	0.1
US	06/14	09:15	Capacity Utilization (%)	May	78	78.0	77.9
US	06/14	09:15	Industrial Production (m/m)	May	0.0	0.2	-0.5
US	06/14	10:00	Business Inventories (m/m)	Apr	--	0.4	0.0
US	06/14	10:00	U. of Michigan Consumer Sentiment	Jun P	98.0	98.0	100.0
CA	06/14	09:00	Canadian existing home sales	May	--	--	3.6

KEY POINTS:

- Risk-off sentiment driven by China macro, Iran
- Mixed, but generally soft readings on China's economy
- Krona appreciates after upside to Swedish inflation
- Russian central bank cuts, guides more to come
- BoC's Poloz interview watch
- CDN home sales: did Vancouver provide a lift?
- US retail sales: solid headline, but what about core?
- Will US industrial output rebound?
- US UofM sentiment could soften...
- ...and keep an eye on consumers' inflation expectations
- Ten lessons to draw from the Raptors' championship

This will be a lighter note because, well, quite frankly I'd rather that we all bask in the glow of the Raptors NBA championship. There is a line-up at the water cooler that I'd like to join. You'd quite possibly have to be Canadian to fully understand why! See an attempt at an explanation in the Canadian section. A risk-off global market tone is being driven by soft Chinese macro reports and geopolitical tensions presently focused upon Iran in light of a grainy video allegedly showing its involvement in blowing up tankers in international waters that may invoke a US response. Russia cut while Peru held its policy rate. Canada awaits words from BoC Governor Poloz and home sales. The main incremental macro focus will nevertheless be upon a trio of US reports, especially retail sales.

- The USD is slightly appreciating this morning as most currencies decline especially the A\$/NZ\$, pound sterling, won and Euro. The yen is up on safe haven demand, but the Swiss franc isn't participating in this rally. The Swedish krona is an outsized performer (CPI, see below).
- Sovereign bond yields are down by 2–3bps across the US Treasury curve, while Canada's curve is rallying by slightly less and EGB ten year yields are down by between 2bps (Germany) and 6bps (Italy). The gilts curve is underperforming all of them.
- Equities are soft. US equity futures are down by between about ¼% and ¾% with the Nasdaq leading the way. TSX futures are down by ¼%. European cash markets are losing about ½% to 1% of their value across the bourses.

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Asian equities were mixed as the Nikkei rallied overnight while everything else fell especially stocks in mainland China with the Shanghai composite down 1% and Shenzhen down 1.8%.

- Oil prices are flat (Brent) to slightly lower (WTI). Supply concerns are offsetting Persian Gulf tensions with little incremental information to either influence.

Chinese macro readings were mixed overnight. Industrial output disappointed expectations with 5.0% y/y growth (5.4% consensus and prior). That barely undershot the low point in 2008 by setting the weakest reading since early 2002. Retail sales growth, however, climbed to 8.6% y/y (8.1% consensus, 7.2% prior) and hence rebounded from what had been the weakest reading since May 2003. Cap-ex investment figures slightly disappointed expectations with year-to-date growth of 5.6%, or a half point lower than both what was expected and what was previously recorded. Chinese cap-ex growth is running at its lowest since at least 1998 which is as far back as presently available figures go.

Swedish inflation surprised higher and took the krona with it on improved bets that the Riksbank may well be on track to hike later in the year as per its plans. We'll see about that. For now, however, note that headline inflation climbed to 2.2% y/y (2.1% prior, 2.0% consensus) and underlying inflation also increased to 2.1% y/y (2.0% prior, 1.9% consensus).

Russia's central bank cut its policy rate by 25bps as expected to 7.5%. It was the first rate cut since March of last year and unwinds half of the 50bps in tightening that was pursued over 2018H2. The statement ([here](#)) explicitly guided further easing:

"If the situation develops in line with the baseline forecast, the Bank of Russia sees the possibility of a further key rate reduction at one of the upcoming Board of Directors' meetings and a transition to neutral monetary policy by mid-2020."

Despite such guidance, the ruble is a touch stronger to the USD this morning and retaining this bias post-statement. Markets may be surprised by a more gradual path of easing than they had assumed.

Peru's central bank met unanimous expectations for no rate change by leaving its policy rate at 2.75% last evening. The policy statement ([here](#)) had a neutral feel to it by referencing inflation within the target range that is expected to remain there, alongside transitory factors that are weighing upon recent growth but expected to improve.

UNITED STATES

US markets will digest a trio of macro readings this morning as follows:

1. Retail sales: The May reading (8:30amET) should see headline retail sales getting a lift from a 5½% m/m jump in auto sales last month to an estimated 17.3 million vehicles sold at an annualized rate. Gas prices, however, may hold back headline sales somewhat. The key will be to focus upon core retail sales after stripping out autos and gasoline and whether they rebound from the prior month's weakness that itself followed a strong month of March.

2. UofM consumer sentiment: The June reading is expected to soften a little given soft job growth through the nonfarm disappointment in May, slightly cooler wage growth and hours worked, and market volatility stemming from trade conflicts. Also watch the one year and five year measures for inflation expectations as one of the gauges that the Fed monitors.

3. Industrial output: After a 0.5% m/m drop in April, a mild rebound is anticipated.

CANADA

Canadian market observers await publication of an interview by Bank of Canada Governor Poloz at some uncertain time today. Don't you love their vague guidance around such occasions ([here](#)).

Canada will release existing home sales for May this morning (9amET). As Marc Desormeaux explains [here](#), Vancouver could provide a shot in the arm to the figures.

The Toronto Raptors NBA championship was about much more than the victory itself. Some of the suggested interpretations below apply universally, while some perhaps take a Canadian to fully grasp.

1. Behind the sport, there are business lessons in taking calculated risks with a potentially high pay-off (e.g. 'the trade') and then protecting core assets by embracing load management and wellness so that they can rise to the occasion when it truly counts.
2. There is a character lesson in playing through awful officiating that only focused the mind on winning over whining. Perhaps the league could use some Canadian officials.
3. There is an element of retribution for a nation that has taken so many insults and affronts at the hands of the US administration and its supporters, only to stick it back on mainstreet through the great equilibrator of professional sport. Take that, Trump! You've only rallied a nation.
4. There is a unifying aspect to a country that needed it as all parts of the nation rallied for their team across 'Jurassic parks' and living rooms.
5. There is a career lesson in that initial personal dissatisfaction ('the trade') can be transformed into great accomplishments through perseverance and strong work ethic.
6. There is even something for economists in all of this as I'm sure we'll see a lift to some activity measures like retail sales given how unusual it is to be playing pro sport in this country come June!
7. There is generational leadership to our youngsters that was provided by the character of the players on the court at a time when too many incompetent global political 'leaders' seem to be providing all of the wrong lessons.
8. There is the lesson that strong individual performance from everyone drives team based outcomes.
9. There is the reminder that Canadians have invented many of the things the world cherishes, not least of which being the game of basketball itself.
10. And of course, there were examples on both sides—some good, some not—that illustrated the importance of being gracious winners and losers.

Well done Toronto. Well done Canada. This victory embodies what you as a nation stand for in the world today. Maybe the weekend practice for the kids' baseball team that I coach can have them set down their gloves and bats and consider the shining leadership example that pro sport has provided here. Maybe the end result will teach a man that the weather and airport line-ups are small prices to pay for community inclusion and being welcomed by your team. Yes, it took sport to teach that us that there is indeed hope for humanity after all. If you're tired this morning, then I'm sure it's a good tired.

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