

ON DECK FOR THURSDAY, JUNE 20

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	06/20	08:30	Current Account (US\$ bn)	1Q	--	-124.3	-134.4
US	06/20	08:30	Initial Jobless Claims (000s)	JUN 15	220	220	216
US	06/20	08:30	Continuing Claims (000s)	JUN 8	1680	1680	1662
US	06/20	08:30	Philadelphia Fed Index	Jun	15	10.7	0.3
US	06/20	10:00	Leading Indicators (m/m)	May	--	0.1	0.2
CA	06/20	08:30	ADP payrolls (000s)	May	--	--	-16.0

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KEY POINTS:

- Geopolitical tensions & the Fed driving oil higher, bond yields lower
- Geopolitical tensions rise in Persian Gulf, Turkey
- Did markets over-react to the Fed?
- Canada's curve underperforming on oil, distorted CPI
- BoJ's Kuroda widens the yield target range
- BoE not surprisingly sounds dovish
- Bank Indonesia stays on hold
- Norges Bank hikes, guides more to come
- Philippines unexpectedly holds
- CBCT holds rate
- UK retail sales contract for a second month
- CDN ADP payrolls confirm the LFS payroll drop
- US Philly Fed adds to Empire as evidence of a weak pending ISM reading
- UK Conservative Party ballot: and then there were two
- Carney's Mansion House speech (12pmET)

INTERNATIONAL

Geopolitical tensions especially in the Persian Gulf are driving oil prices higher with the aftermath of yesterday's Fed meeting still reverberating through global markets. Iran shot down a US drone that it alleges was in Iranian airspace while the US is denying this claim. The head of the Revolutionary Guards Corps, Hossein Salami, escalated inflammatory rhetoric by saying Iran doesn't seek war, but is ready for war. Attacking tankers and drones would appear to be at odds with claiming Iran doesn't want war! US retaliation is looking increasingly likely.

I still think that markets have over-reacted to the Fed's total suite of communications (my assessment is [here](#)). Because the FOMC set a floor of -50bps to the maximum amount of easing they are presently prepared to entertain and because Powell's guidance during the press conference applied heavy conditionality to rate cuts. The net effect was less dovish than markets were assuming going into it given that markets had a full percentage point of easing priced in over 2019-20.

Most other developments were concentrated upon global central bank decisions from the BoE, BoJ, Norges Bank, Bank Indonesia, Philippines and Taiwan. See below for recaps. Light US and Canadian data risk is on tap.

Here is the overall tone across global markets this morning:

- Stocks largely ignored the Fed communications yesterday but they are rallying this morning when geopolitical tensions are rising. Go figure. Higher oil is benefiting a component of the market while the implications of tensions may be getting translated into more likely rate cuts while downplaying implications to global growth. US equity futures are up by about 1% on average across the benchmarks with the Nasdaq leading the way. TSX futures are up by just over ¼%. European cash markets are up by about ¾% on balance except for a small decline in Spain. Asian equities rallied by between 0.6% (Tokyo), 1.2% (HK) and about 2% across mainland China's main exchanges.
- The USD is broadly softer this morning. On a DXY basis, it has depreciated by just under 1% since yesterday's FOMC communications. All major crosses are up against the dollar this morning with the Norwegian krone leading the way on a hawkish central bank (see below).
- Sovereign bond yields are dropping across most markets except Canada where the curve is flat to slightly cheaper and likely influenced by higher oil and yesterday's CPI that I still think was heavily distorted with renewed downside likely in future readings (recap [here](#)). The gilts curve is outperforming most other markets except for Italy's where the ten year spread over bunds is down 6bps. Japan's curve also rallied as the BoJ essentially widened the market's perceptions of the "around 0%" nominal 10 year bond yield target interval.
- WTI and Brent oil are both up by just under US\$2 to about US\$55.70 and US\$63.60 respectively.

The Bank of Japan met expectations for no policy changes and jawboning future flexibility. It left unchanged its policy balance rate (-0.1%), forward rate guidance, 10 year JGB yield of "about" 0% and ¥80 trillion asset purchase target. The 10 year JGB yield fell to -18bps for two reasons. One is that it caught some of the aftermath of the Fed meeting's effects on global bond markets. Two is that Governor Kuroda indicated that the 10 year "around 0%" yield target was a range that could fluctuate within about 20bps on either side. That was a signal to markets they could push it further inside a broader range than may have been previously understood with little risk of BoJ intervention.

The Bank of England left its policy rate unchanged at 0.75% as universally expected and the vote was 9–0 in support of its overall stance. Guidance was fairly dovish on balance and Governor Carney's Mansion House speech at 12pmET may further inform expectations. The statement (here) walks through how developments have been somewhat worse than assumed with greater downside risks focused upon global trade tensions (ie: Trump) than assumed in the May forecasts and higher perceived risk of a no-deal Brexit outcome. It also provided dovish medium-term inflation guidance as follows:

"CPI inflation was 2.0% in May. It is likely to fall below the 2% target later this year, reflecting recent falls in energy prices. Core CPI inflation was 1.7% in May, and core services CPI inflation has remained slightly below levels consistent with meeting the inflation target in the medium term."

All that said, I can't help but feel that the statement reads much like Carney's endless warnings that rates could rise when he was at the BoC. This shone through the following remark based upon heroic assumptions:

"The Committee continues to judge that, were the economy to develop broadly in line with its May Inflation Report projections that included an assumption of a smooth Brexit, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. "

In all, this is just jawboning by central banks that talk too much as the rock stars of our times which says a lot about the state of the world. Talk of hiking isn't credible with Uncle Boris standing over Carney's shoulder and with next steps in the Brexit mess still far from being adequately informed. Further, recent trends in the consumer sector have been indicating lost momentum after earlier Brexit stocking and weather distortions. This morning's retail sales report for May registered the second monthly drop of 0.3% m/m in volumes ex-fuel.

Norges Bank raised its deposit rate by 25bps to 1.25% this morning as universally expected. What sparked the krone to rally and lead all majors this morning, however, was **more hawkish than expected guidance** in the statement ([here](#)) and particularly this line:

“Our current assessment of the outlook and balance of risks suggests that the policy rate will most likely be increased further in the course of 2019”

Bangko Sentral ng Pilipinas shocked markets in the other direction, by being less dovish than expected. The central bank was almost universally expected to lower its policy rates but instead kept them unchanged. The overnight borrowing rate was left at 4.5%. Guidance was nevertheless dovish as Governor Diokno stated that future rate cuts were “inevitable”, would be “data dependent and evidence-based” and the statement ([here](#)) concluded the following need for a prudent pause after last month's rate cut:

“A prudent pause allows the BSP to observe and assess the impact of prior monetary adjustments including the phased reduction in the reserve requirements to be completed by the end of July.”

At least Bank Indonesia didn't rock the boat! It left its 7 day reverse repo rate unchanged at 6% as most economists expected. The statement ([here](#)) yielded few direct clues regarding next steps but maintained its inflation forecast as outlined in the following remark while also likely to continue closely monitoring risks to the rupiah and capital flows:

“Moving forward, Bank Indonesia will consistently maintain price stability and strengthen coordination with the Central and Local Governments to ensure low and stable inflation, which is projected below the midpoint of the target corridor for 2019, namely 3.5±1%.”

The Central Bank of the Republic of China (Taiwan) left its policy rate at 1.375% as universally expected. The statement ([here](#)) emphasized it is closely monitoring conditions abroad and is prepared to act accordingly.

The UK Conservative Party narrows down the three remaining leadership candidates to the top two today and then goes to a postal ballot to determine the ‘winner’ to be announced the week of July 22nd. We'll find out the top two shortly after 1pmET but at least one of them (Boris Johnson) won't surprise anyone. That the rules and process favoured Boris has been fairly clear from the beginning.

CANADA

Canada updated ADP payrolls for May this morning. It reported a 16,000 drop in payroll positions. This reinforces the Labour Force Survey readings for last month. Even though LFS registered a rise of 28,000 jobs last month, that was only because of a 61,500 rise in self-employed positions as payroll spots fell by 34,000. ADP only considers payroll positions and ignores self-employed which is a huge shortfall in an economy like Canada's.

UNITED STATES

Poof! There goes the next ISM-manufacturing reading. The Philly Fed metric followed up the Empire gauge with a disappointing reading of 0.3 (10.4 consensus, 16.6 prior). The drivers were mixed but new orders were slightly softer (8.3, 11 prior), employment was slightly softer (15.4, 18.2 prior), prices paid decelerated a lot to 12.9 (23.1 prior) but so did prices received at 0.6 (17.5 prior) such that on net margins deteriorated. Watch the Richmond gauge on June 25th as the next ISM signal given that Richmond and Philly are the better correlated regional gauges to ISM that lands on July 1st.

US jobless claims in line with expectations and to be ignored at 216k

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