FINANCIAL MARKETS TODAY

IDEAglobal

Asian edition

Wednesday 13 June 2018

INSIDE TODAY'S EDITION:

- **NEWS & RUMOURS**

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- **FOREX MARKET STRATEGY**

Tuesday was a fairly quiet day in the FX market, ahead of the key FOMC meeting on Wednesday.

- **BOND MARKET STRATEGY**

Treasuries saw mixed performance on Tuesday but held generally tight ranges as markets both absorbed in line CPI data for May (increasing +0.2% m/m on both the headline and core) and look ahead to the FOMC statement on Wednesday.

- **US PREVIEWS: FOMC STATEMENT & PRODUCER PRICES ON TAP**

The FOMC monetary policy statement will be published on Wednesday at 14:00EDT (18:00GMT), accompanied by updated economic projections and followed by a press conference with Fed Chair Powell.

- **US RECAP: CONSUMER PRICES PUSH AHEAD**

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- **UK: WAGE GROWTH EASES; LABOUR MARKET TIGHTENS**

The latest UK labour market statistics are mixed, on balance, although GBP bears have been swift to zero in on the more dovish aspects of the report. The 2.5% y/y reading on the UK headline average earnings growth rate for Apr comes in softer than the market consensus prediction of 2.6% y/y and is down from 2.6% in the 3mths to Mar. Real wage growth remains squeezed.

- **FX TECH FOCUS: EUR/USD & USD/JPY**

-- EURUSD: [Bullish pause +20%] Congested below the 1.1820/1.1850 resist area
-- USDJPY: [Bullish intent +20%] Attempting to break clear of 110.00 resist again

DAILY ECONOMIC DIARY

DD/MM	GMT	R*	CTRY	DATA RELEASE	FOR	ACTUAL	IDEA	MEDIAN	LAST
12/06	22:45	4	NZ	FOOD PRICES M/M	MAY		N/A	N/A	0.1%
13/06	**08:30**	**4**	**UK**	**CPI M/M**	**MAY**		**0.5**	**0.4**	**0.4%**
13/06	**08:30**	**4**	**UK**	**CPI Y/Y**	**MAY**		**2.5**	**2.5**	**2.4%**
13/06	08:30	4	UK	CORE CPI M/M	MAY		0.4	0.3	0.4%
13/06	08:30	4	UK	CORE CPI Y/Y	MAY		2.1	2.1	2.1%
13/06	08:30	4	UK	CPIH M/M	MAY		0.5	N.A	0.4%
13/06	08:30	4	UK	CPIH Y/Y	MAY		2.4	2.3	2.2%
13/06	08:30	3	UK	RPI M/M	MAY		N.A	0.4	0.5%
13/06	08:30	3	UK	RPI Y/Y	MAY		N/A	3.4	3.4%
13/06	08:30	1	UK	PPI INPUT (NSA)	MAY		2.5	1.6	0.4%
13/06	08:30	2	UK	PPI INPUT Y/Y	MAY		8.5	7.6	5.3%

13/06	08:30	4	UK PPI OUTPUT M/M	MAY	0.3	0.3	0.3%
13/06	08:30	4	UK PPI OUTPUT Y/Y	MAY	2.9	2.9	2.7%
13/06	08:30	1	UK PPI EX FDT NSA	MAY	0.2	0.2	0.1%
13/06	08:30	2	UK PPI EX FDT Y/Y	MAY	2.5	2.5	2.4%
13/06	**09:00**	**3**	**EU IND PROD M/M**	**APR**	**-1.4**	**-0.5**	**0.5%**
13/06	09:00	3	EU IND PROD Y/Y	APR	1.5	2.8	3.0%
13/06	12:30	4	US PPI M/M	MAY	0.2	0.3	0.3%
13/06	12:30	3	US PPI CORE M/M	MAY	0.2	0.2	0.3%
13/06	12:30	3	US PPI Y/Y	MAY	2.8	2.9	2.6%
13/06	12:30	3	US PPI CORE Y/Y	MAY	2.3	2.3	2.3%
13/06	**18:00**	**4**	**US FED FNDS TGT-UPPER**	**JUN**	**2.00**	**2.00**	**1.75%**
13/06	23:01	3	UK RICS HSING SURV	MAY	-7.0	-5.0	-8.4

*R=Market Significance rating, on scale 0-5 *Source: Reuters/Bloomberg*

DD/MM	GMT	CTRY	EVENT
13/06	02:00	AU	RBA'S LOWE SPEAKS
13/06	07:00	ES	SPAIN PUBLISHES FINAL HICP INFLATION DATA, MAY
13/06	07:30	SE	RIKSBANK PUBLISHES BUSINESS SURVEY
13/06	09:00	EU	EUROZONE EMPLOYMENT DATA PUBLISHED, Q1
13/06	**18:00**	**US**	**FOMC POLICY STATEMENT**
13/06	**18:00**	**US**	**FOMC RELEASES SUMMARY OF ECONOMIC PROJECTIONS**
13/06	**18:30**	**US**	**FED CHAIRMAN POWELL PRESS CONFERENCE**
13/06		**UK**	**PARLIAMENT CONTINUES VOTING ON BREXIT BILL**

NEWS & RUMOURS

It was announced that the PM May government won the “meaningful vote” (tally of 324-298), effectively blocking the amendment after promises of concessions.

The May US CPI report revealed a +0.2% m/m reading (+2.8% y/y), versus the unrevised +0.2% m/m (+2.5% y/y) result that occurred in April, in line with expectations for a +0.2% m/m result. Meanwhile, core CPI came in +0.2% m/m (+2.2% y/y) in May, versus the unrevised +0.1% m/m (+2.1% y/y) reading seen in April, also in line with expectations for a +0.2% m/m increase. IDEA: overall, the headline found upward pressure from an increase in owners’ equivalent rent (+0.2% m/m), alongside a +0.9% m/m increase from energy prices. Alongside the increase seen in May, we expect gradually stronger inflation readings will be seen in the months ahead, providing support for expectations of gradual further tightening in the quarters ahead.

The US budget reported a net deficit of -$146.8bln in May, versus the -$88.4bln deficit seen in May 2017, roughly in line with market expectations for a -$144.0bln deficit result. According to the release, the greater net deficit came as a decrease in total receipts to $217.1bln, versus $240.4bln in May 2017 (-9.7%) was contrasted by an increase in total spending of $363.9bln, versus the $328.8bln seen in May 2017 (+10.7%). IDEA: Overall, fiscal YTD the net budget deficit came in at -$532.2bln, versus the -$432.9bln deficit seen fiscal YTD for 2017.

The NFIB US Small Business Optimism Index increased to 107.8 in April (up from 104.8), marking the second highest level on record. Overall, subcomponents were generally stronger (8 of 10 posted increases, while 1 decreased and 1 held unchanged). According to the release, the employment outlook saw some upward pressure from plans to increase employment (+18%, from +16%), alongside an increase in expectations for a better economy (+37%, from +30%).

Redbook US same-store sales increased +4.3% y/y for the week ending 9 June, versus the +4.0% y/y increase seen the week prior.

The $14bln 30Yr Bond reopening came in at 3.100% with a bid-to-cover ratio of 2.38, an indirect bid of 62.2%, a direct bid of 10.3% and noncomps of $7.1mln. In context, the 12-auction average for bid-to-cover is 2.38, for indirects is 62.7% and for directs is 8.8%.

UK *'Brexit'* Minister Davis says he is confident that the govt can obtain a *'Brexit'* agreement will be keen to support. Adds that the govt can't secure a good deal with the EU if its hands are tied in negotiations by a vote against the Withdrawal Bill.

Germany's ZEW index of investor expectations slips to -16.1 in June from -8.2 the previous month, which is just slightly below expectations of -14.0. This is a 6-year low. The current situation index also falls almost 7 points to 80.6 (a 14-month low). **This points to prospects of a weaker Ifo business climate survey for Jun.**

Germany's ZEW institute says the escalation in the trade conflict with the U.S and fears of possible destabilising policies towards the financial system in Italy are leaving their mark on the German outlook. Adds, **the outlook for the next six months has significantly deteriorated** - *Reuters.*

The **2.5% y/y reading on the UK headline average earnings growth rate for Apr** comes in softer than the market consensus prediction of 2.6% y/y and is down from 2.6% in the 3mths to Mar. This comes despite evidence of a hardening of the pace of wage settlements and increased pay awarded to key health workers. The underlying rate also eases, with the ex-bonus AWE annual rate down at 2.8% y/y in the 3mths to Apr vs 2.9% y/y in Q1. The u/e rate holds steady at 4.2%, as predicted by the market.

Norges Bank's Regional Network (business survey) for May shows the index for output in the next 6 months having risen more than expected to 1.47 from 1.42 - a 6-year high. IDEA: This is positive for the country's economic and interest-rate outlooks - and has thereby pulled EUR/NOK down by about 3 figures to 9.43-44.

U.S Pres Trump and North Korea's Kim Jong Un signed 'comprehensive' documents following their meeting in Singapore. Trump commented that he expected the denuclearisation process to begin very quickly.

IMF MD Lagarde says clouds over the global economy "are getting darker by the day", with the biggest risk relating to trade policies - *Bloomberg.*

-- Recap from Tuesday's Asian/Pacific session --

According to a report from the China Securities Journal, **China's mid-year liquidity came in better-than-expected; the PBoC is expected to keep liquidity stable**, unlikely to tighten.

The PBoC has set the USD/CNY mid-point today at 6.4121, vs yesterday's at 6.4064.

Japan Apr tertiary industry index came in at 1.0% m/m (expectation was for 0.6% m/m), from -0.3% m/m in March.

Japan May PPI rose 2.7% y/y (expectation was for 2.1% y/y), from 2.1% y/y, revised higher from 2.0% y/y. Also, it gained 0.6% m/m, vs consensus estimates of 0.2% m/m, from prior 0.2% m/m, revised higher from 0.1% m/m.

Japan Q2 quarterly business sentiment index (BSI) All Industry index fell -2.0, from 3.3 in the Q1 and the Large Manufacturing index slumped -3.2, from prior 2.9.

Australia May NAB business conditions slipped to 15, from 21 in April and business confidence came in at 6, from prior 10.

Australia April home loans fell -1.4% m/m (expectation was for -1.8% m/m), from -2.2% m/m in March. Investment lending slipped -0.9% m/m, from prior -9.0% m/m while owner-occupied loan value rose 0.2% m/m, from previous -1.9% m/m.

NZ May retail card spending came in at 0.4% m/m (expectation was for 1.2% m/m), from -2.2% m/m and total spending rose 0.5% m/m, from prior -0.7% m/m, revised better from -0.9% m/m.

New Zealand May ANZ's Truckometer rose 3% m/m, up from 2.7% m/m in April, revised higher from 1.4% m/m. For the y/y, the change is 4.7%, highest since January this year and the light traffic index rose 1.1% m/m, from prior -1.4% m/m.

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FOREX MARKET STRATEGY

Tuesday was a fairly quiet day, at least following the successful Trump-Kim summit, which initially and temporarily boosted the USD. With the US CPI then coming in as expected, the next impetus will come with Wednesday's FOMC meeting (including the statement, new projections and chairman's press conference). If it all points to any more tightening than previously, that should see the **DXY** move up within this week's range of about 93.35-93.90. Subsequently, we expect it to climb to 94.00-94.50, but the markets will remain cautious ahead of the next day's ECB meeting. Along similar lines, **EUR/USD** should trade between 1.1725 and 1.1850 s/term, with the risks on the downside.

Amidst encouraging news from Singapore, lowering geopolitical tensions, **USD/JPY** climbed above the 110.00 mark for the first time in 3 weeks. The pair should trade between there and 110.50 s/term, then we foresee it moving up to 110.50-111.00 later in the week.

GBP/USD lost a little ground following the day's UK labour market data, which saw earnings growth decelerate. Next on the calendar is UK CPI on Wednesday, which will also have a bearing on interest rate prospects. We see Cable continuing to trade between 1.3350 and 1.3450 s/term, though it has some potential to firm if the parliamentary votes on the Brexit bill on Tuesday/Wednesday go through in accordance with PM May's plans.

EUR/NOK dropped to a 2018 low of 9.43 following a better-than-expected improvement in Norges Bank's business survey, which supports the Norwegian CB's plan to raise rates in the early autumn. The pair's recent price action points down to 9.40 multi-day. Even without any apparent Swedish news, **EUR/SEK** has also broken well through 10.20 support, which is consistent with our view of the currency recovering towards 10.00 vs EUR multi-week. The next support should be seen around 10.05 (its March swing lows).

USD/CAD hovered around the 1.3000 mark, despite President Trump's continuing rant against the Canadian PM. We look for it to stay in the 1.2950-1.3050 area s/term, with direction then subject to the greenback's post-FOMC reaction and the path of oil prices. **AUD/USD** has also been stable just over the 0.7600 mark (at the lower end of last week's range of about 0.7560-0.7680), with little impetus at present.

BOND MARKET STRATEGY

US: Treasuries saw mixed performance on Tuesday but held generally tight ranges as markets both absorbed in line CPI data for May (increasing +0.2% m/m on both the headline and core) and look ahead to the FOMC statement on Wednesday (accompanied by updated economic projections and followed by a press conference with Fed Chair Powell). The main event overnight appeared to be more of a dud as markets celebrated/observed civility between US

President Trump and North Korea Supreme Leader Kim Jung-un. How lasting this calm between these leaders will be remains to be seen. However, a temporary (and hopefully more permanent) removal of geopolitical tensions will be something welcome by all parties. With respect to the FOMC, aside from the widely expect move higher for rates (bringing the upper bound to 2.00%), markets will pay close attention to any change in the Fed's forecasted outlook (particularly given that they were only one forecast short of calling for four rate hikes in 2018). On balance, we see this as a close call, though expect no significant change to the outlook, following recent commentary that highlighted FOMC tolerance for higher near-term inflation while also noting concerns with respect to increasingly disruptive trade policy (and rhetoric). In addition to the afternoon statement, markets also receive producer prices earlier in the session.

EUROPE: The European bond markets were calm on Tuesday in the run-up to the FOMC and ECB meetings. The 10yr German yield hovered around the key 0.50% mark, and we continue to look for an upside break by the end of the week.

The Italian/German yield spread has also stabilised in the 230-240bps range, pending new information about Rome's fiscal policy plans. As for the outright BTP yield, we clearly look for it to climb back to 3.00%.

The 10yr UK yield similarly stuck around 1.40%, as the country's labour data didn't provide many surprises — though the market now awaits CPI data on Wednesday. The latter is expected to see the headline rate inch up to 2.5% y/y, and such an outcome would be consistent with our expectations for the yield to move up into the 1.40-1.50% range along with higher global yields.

US PREVIEWS: FOMC STATEMENT & PRODUCER PRICES ON TAP

FOMC Statement: The FOMC monetary policy statement will be published on Wednesday at 14:00EDT (18:00GMT), accompanied by updated economic projections and followed by a press conference with Fed Chair Powell. Overall, we expect the statement will announce an increase in the upper rate to 2.00%, in line with market expectations. As is the case with all meetings associated with updated projections, we expect this statement will be examined especially close for any change to overall leanings from the FOMC following growing pressure registered in both headline and core PCE y/y readings in recent months (also reflected in the May CPI data seen Tuesday). On balance, although there is some risk to note that there could be a sharp change in the statement's characterization of inflation (and corresponding FOMC projections), we anticipate recent gains in inflationary pressures will be taken in stride (and largely offset by backdrop fears related to escalating trade tensions). However, given the leaning in the direction of an additional rate hike in 2018 (being only one FOMC participant forecast in March from making that the median view), we anticipate potentially more significant changes could be on the horizon.

As mentioned previously, data has been sufficiently strong to warrant the Fed continuing along its forecast of three rate hikes in 2018 (with the distinct possibility of a fourth hike, should the data allow). With respect to the timing of future moves, clear emphasis will continue to be on the FOMC characterization of inflationary pressure and what it might mean for monetary policy moving forward. Given the discussion regarding labor turnover and broader measures of unemployment, greater focus on the U6 measure (under-employment) is something likely to be seen in the months to come, particularly from doves, as the headline U3 measure continues along its downward sloping path. Looking back at the May statement, it noted that job gains have been strong in recent months (on average), and the unemployment rate has stayed low. Recent data suggest that growth of household spending moderated from its strong fourthquarter pace, while business fixed investment continued to grow strongly (more upbeat from the March characterization of moderation seen in business fixed investment). Overall, the Committee expects that, with further gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will remain strong. As mentioned previously, inflation on a 12-month basis is expected to run near the Committee's symmetric 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.

On balance, this statement should not be seen as particularly shocking, given the tones coming from policymakers in the lead up to the meeting (and the clear evolution of inflation data in recent months (particularly gains made in both headline and core PCE measures). Overall, we continue to anticipate another 50bps worth of tightening over the course of 2018 (with the distinct chance of an additional 25bps coming towards year-end should inflation pressures evolve more significantly to the upside).

Producer Price Index: The May US Labor Department producer prices report will be released Wednesday at 08:30EDT (12:30GMT). Producer prices should broadly reflect energy prices seen over the period (on a m/m basis). On balance, we expect maintained pressure in the headline measure around +0.2% m/m (+2.8% y/y), alongside a +0.2% m/m core-measure (+2.3% y/y) for May. This follows a headline measure that increased +0.3% m/m (+2.6% y/y), alongside a +0.3% m/m reading seen in the core-measure (+2.3% y/y) for April.

Looking back at the April breakdown, despite continued gains in m/m readings in April, prices at the headline saw some downward pressure on a y/y basis (+2.6% y/y in April, versus +3.0% y/y in March). This was accompanied by similar y/y pressure seen in the ex-food and energy measure, +0.2% m/m (+2.3% y/y) in April, following the +2.7% y/y reading seen in March. Nevertheless, looking further ahead, continued pipeline pressure was presented via upward pressure from ex-food and energy unprocessed (+0.3% m/m) and processed intermediate goods (+0.7% m/m).

US RECAP: CONSUMER PRICES PUSH AHEAD

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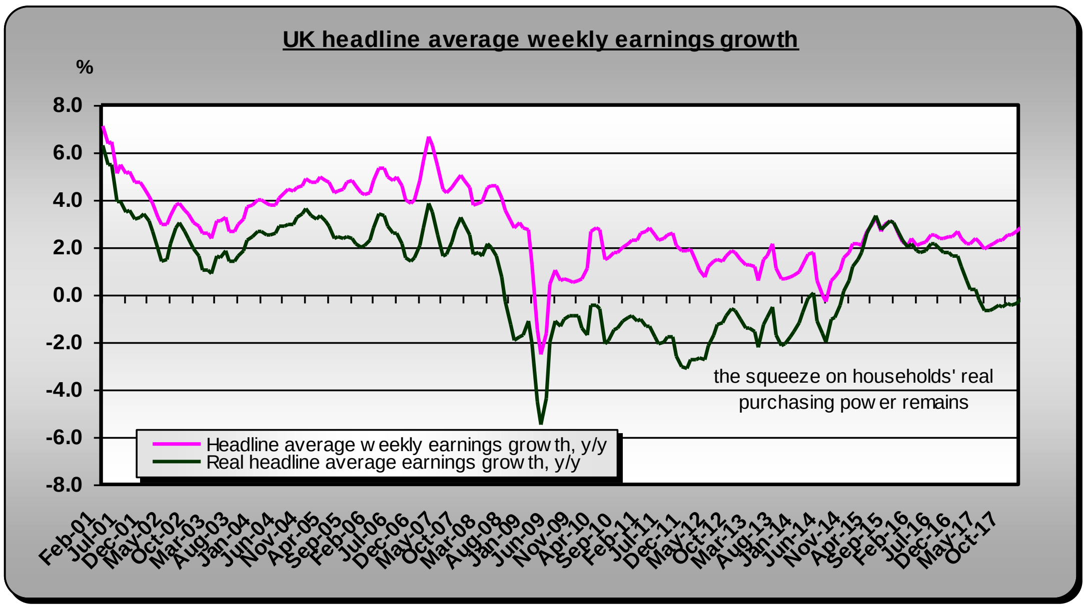
Finding upward pressure from energy prices, pricing pressures on the headline measure were stronger in May, resulting in a +0.2% reading on the month. This ultimately was accompanied by mixed readings seen from an increase housing (+0.3% m/m), though contrasted by a pullback from medical care (-0.1% m/m) and unchanged m/m readings seen from transportation and foo/beverages. On both a weighted and percentage basis, most subcomponents were little changed in May with the greatest impacts coming largely from the upward pressure seen from owners' equivalent rent and energy prices. On balance, this should do little to change to current expected path of the FOMC (or alter the tenor of the current debate among policymakers), despite further upward pressure seen in the pace of y/y gains. On balance, we still anticipate another 50bps worth of tightening will be seen over the course of

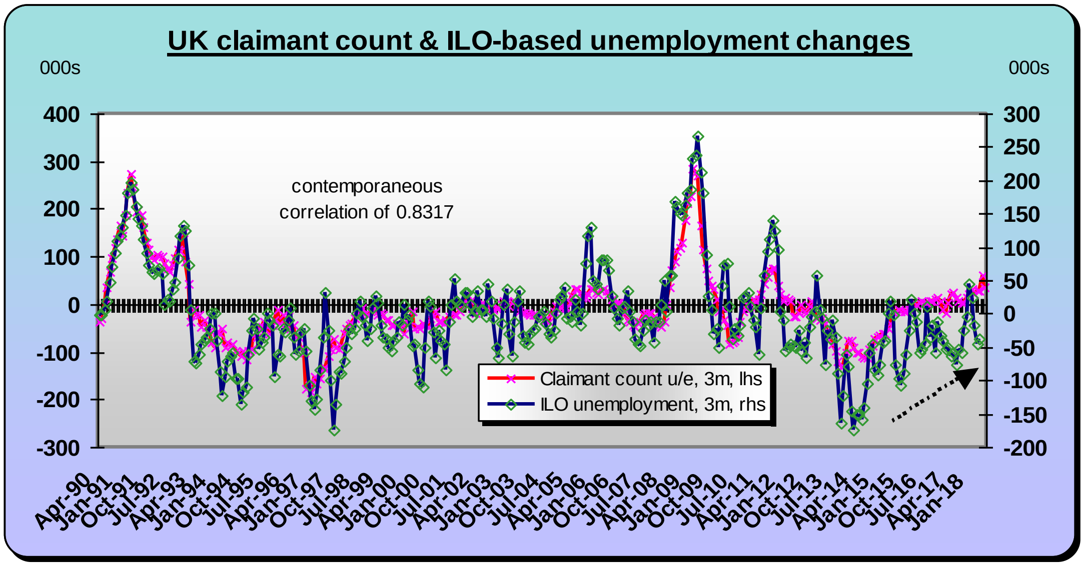
2018, including 25bps on Wednesday (with increased odds of an additional 25bps should inflation continue to push higher on a y/y basis).

UK: WAGE GROWTH EASES; LABOUR MARKET TIGHTENS

The latest UK labour market statistics are mixed, on balance, although GBP bears have been swift to zero in on the more dovish aspects of the report. The 2.5% y/y reading on the UK headline average earnings growth rate for Apr comes in softer than the market consensus prediction of 2.6% y/y and is down from 2.6% in the 3mths to Mar. The underlying rate also eases, with the ex-bonus AWE annual rate down at 2.8% y/y in the 3mths to Apr vs 2.9% y/y in Q1 and comes despite evidence of a hardening of the pace of wage settlements and increased pay awarded to key health workers. So this has caused cable to ease slightly. The u/e rate holds steady at 4.2%, as predicted by the market.



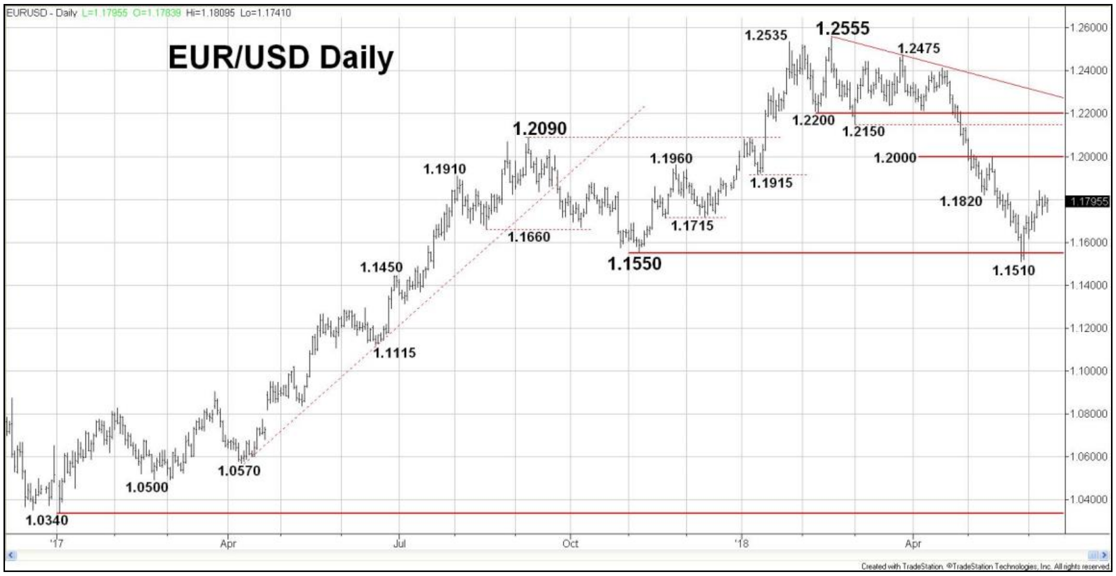
The labour market is still tightening, as evidenced by the bigger than expected increase in employment, of 146K in the 3mths to Apr, against the market expectation of a 110K rise. The fall in the ILO-based measure of unemployment of 38K over the same period is of a lesser magnitude than calculated for the 3mths to Mar, and so the steadying of the u/e rate points to the combined effects of the surge in employment and a likely increase in the labour force. The fall in the claimant count u/e level of 7.7K in May, following three consecutive months of increases, is probably an aberration that will likely see a correction in the Jun data. This is the more so given anecdotal reports of the rising trend of high street store closures that are putting thousands of retail workers out of work and pushing many of them on to the dole queues.



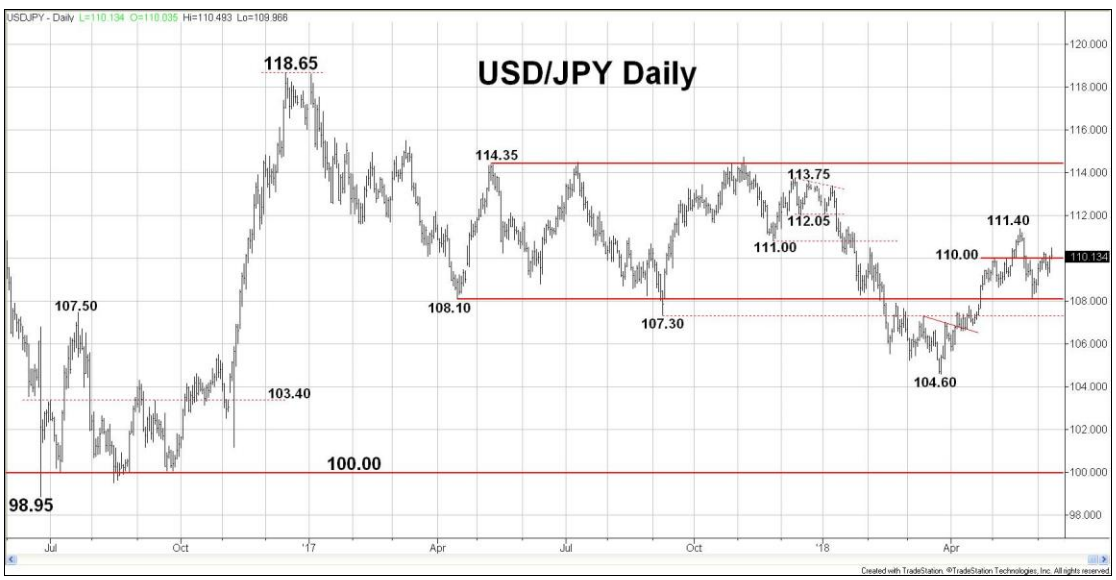
The easing of the headline average earnings growth rate means that real pay growth remains squeezed when compared with an annual CPI inflation rate of 2.5% y/y in the 3mths to Apr. As such, future household spending growth will likely remain under par, with obvious implications for overall GDP growth going forward. It would be interesting to see how May retail sales volumes growth fares after the sharp recovery seen in Apr, when the updated data are published on Thurs (we see a disappointment for GBP bulls), **but so far the hard data are not yet providing a convincing case for the MPC to vote in favour of a further tightening of monetary policy**.

FX TECH FOCUS: EUR/USD & USD/JPY

EURUSD [Bullish pause +20%] The corrective rally off the 1.1510 low traded last month traded into the 1.1820/1.1850 resist area, but now becoming congested below there with a lack of upside follow through. Need to clear above 1.1850 to regain the upside impetus for a run back to 1.1915 next, and even all the way to the key 1.2000 level. However, a failure to follow on to the upside leaves initial support at 1.1715, below which the bears return for another test of the major swing low at 1.1550.



USDJPY [Bullish intent +20%] Resist at 110.00 has proved a tough level on the current rally off the 108.10 support area. However, seeing another attempt to clear above there to renew the bullish impetus. Next resist at the current high of 111.40 and above there sets focus towards a return to the range highs of 113.75 and 114.35. A failure to clear away from the 110.00 area leaves the price action vulnerable to a slide lower again with key support then at 108.10.



Contributors: L. Abisogun, D. Bir, E. Brown, M. Clarke, E. Holmberg, J. Karasin, M. Loader
Tel.: (Ldn) +44 207 664 0200 / (N.Y.) +1 646-759-3653 / (Sing.) +65 6332 0700 **E-mail**: research@ideaglobal.com