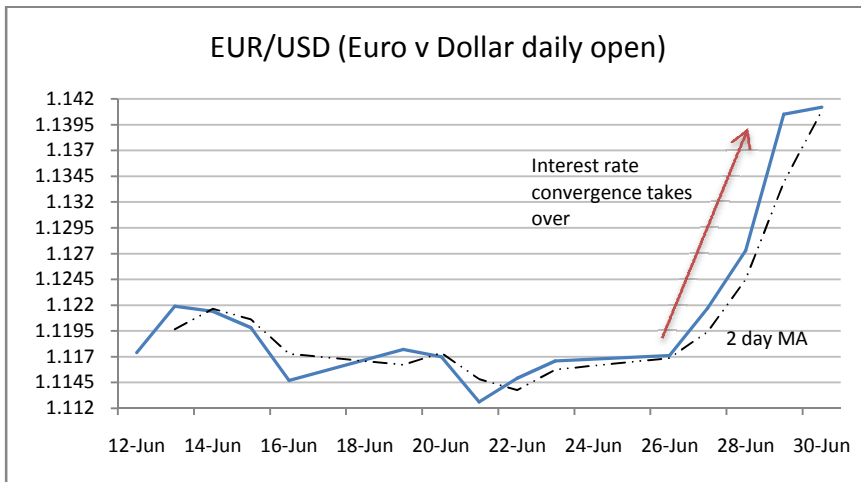


# POLICYMATTERSUSA

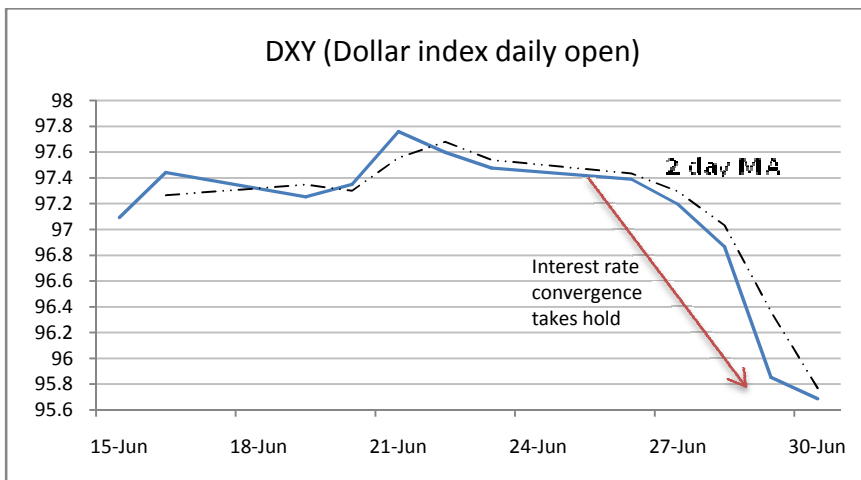
**Economic and Financial Market Advisory**  
U.S. FX Weekly

## WEEK IN REVIEW

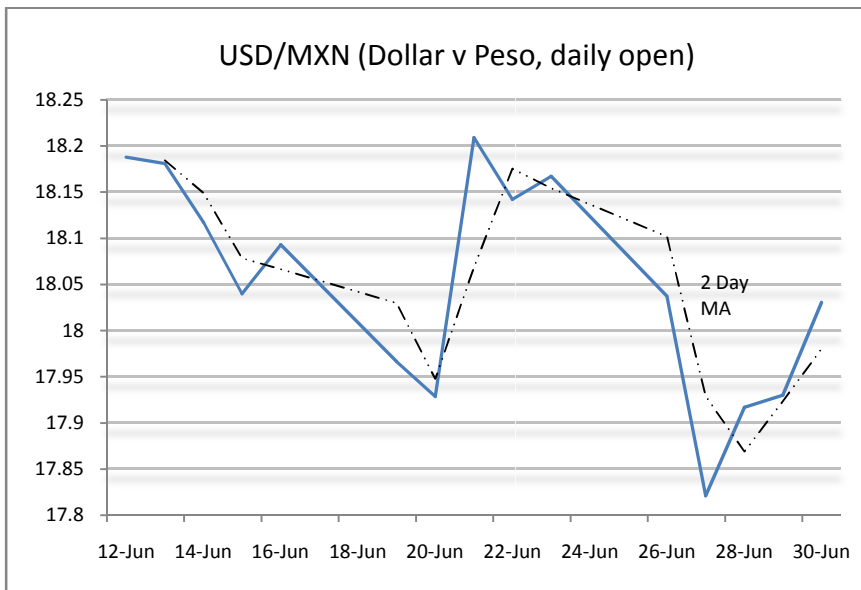
Sell dollars; interest rate spreads are due to narrow between the EU and the US, the UK and the US, and maybe even the Japan and the US. Everything is relative in the FX world. While U.S. interest rates are higher, and will continue to go up, the spread between U.S. rates and international rates takes center stage. The evidence is most obvious in EUR/USD, and even in USD/MEX (though add in other reasons here). Mario Draghi, ECB President, got things started a little early this past week with his effort at talking tough on QE and tipping his hand on intentions with tapering, ie rates are going higher and ending Quantitative Easing (QE). The problem is, they still want and need a weak Euro, so Wednesday thru Friday ECB officials and EU members tried to temper Draghi's tough talk by walking back his comments on the timing of the ending of QE; whenever it is, it isn't now, or this summer so please don't buy the Euro or sell bonds. The U.S. dollar was weaker across the board on interest rate spreads narrowing, weak U.S. hard economic data, and ongoing instability at home and abroad; think Trump tweets and a paralyzed GOP on Capitol Hill. Given current economic and monetary information sell rallies in the U.S dollar, or look for technical breakouts to the downside. The Fed ending QE in 2013 and beginning rate hikes in 2015 brought EUR/USD from 1.36 to 1.04, the reverse is now setting up. Reminder; there are all kinds of caveats related to Geo-politics and actual WAR, not to mention real economic weakness developing. Always have your stop loss in mind, and keep trailing stops for taking profit.



We pushed through 1.1215 and it was off to the races buying Euro and selling USD. ECB President Draghi spooked markets with his tough talk on the QE and the improvements in the EU economic outlook. ECB officials tried to rhetorically stem the rise late in the week, but it was too late. Three weeks ago the Fed was hiking at least two more times in 2017 and the ECB was in steady-as-she-goes mode. Now, the Fed isn't likely to hike again in 2017, and the ECB is likely to taper and end their QE program. Translation; buy EUR, sell USD. The high on the week was 1.1445, with a low of 1.1171. Watch 1.1523 and 1.1620 above, and 1.1245 and 1.1108 below.



Since the EUR accounts for a large percentage of the dollar index basket it is no surprise we see a mirror image of EUR/USD chart this week. It is weakness across the board. The U.S. economy could use some of that elixir the rest of the major economies of the world have relied on for so long; a weak currency. While the Trump admin has called for a weaker dollar, and it has helped put an offer in the U.S. dollar market, this move is driven by central bank cyclical pattern differentiation, or some would say growing coordination. Given the imposed globalization of finance, it is hard for an economy to go it alone on interest rates.



What a ride for the Peso over the past 10 months with the Trump campaign rhetoric on the southern wall and NAFTA, then more bluster following the election, followed by a softening on the wall and NAFTA. Remember, the wall was supposed to already be under construction, and NAFTA was either to be done away with or renegotiated by now; well, based on what Trump said in public as a candidate anyway. Dollar/Mex traded down from 22.00 to a low of 17.85, levels last seen in May of 2016. USD/MXN has been moving higher since mid 2011 related to narco-terrorism, political instability and low oil prices. All the while Mexican interest rates have been much higher than the U.S. The Mexican 10yr has been trading above 5% since May of 2013; so much for interest differentials driving currencies.

ECONOMIC DATA

Item	Actual	Exp	Prior
May Durable Goods Orders	-1.1%	-.4%	-.7%
Jun Consumer Confidence	118.9	116.7	117.9
MBA Mortgage Apps W/E 6/24	-6.2%		.6
May Goods Trade Balance	-\$65.9B	-\$66B	-\$67.6B
May Pending Home Sales	-.8%	.5%	-1.3%
Q1 Final GDP	.35%	.3%	.3%
Initial Jobless Claims W/E 6/24	244K	241K	241K
May Personal Income	.4%	.3%	.4%
May Personal Spending	.1%	.1%	.4%
Jun Chicago PMI	65.7	57.5	59.4

Expectations are the key to market movements each day and economic data is at the top of the list as a catalyst for those movements. This past week, the last week of every month, is a reasonably full calendar. As has been the case for some months now, largely on the back of optimism coming from the rhetoric of the Trump admin and the GOP led Congress, the soft data points (surveys) were strong, while the hard data points (real output) were weak, except of course the historically low levels of Initial Unemployment Claims. May Durable Goods Orders were in line with recent weak Factory Orders and indicates a consumer pulling back from large ticket items, and business from capital equipment. Excluding transportation, the Durable

Goods Orders were up .1%. The Conference Board released their June Consumer Confidence data again showing a stronger than expected release as optimism about current and future conditions keep rising even though most other hard consumer data suggests the American consumer is pulling back. May Goods Trade Balance worsened yet again as it has been doing nearly every month since 2009. And yet again China is the leading nation accounting for over 50 percent of our monthly goods trade balance. For May the U.S. suffered a \$65.9B deficit, a bit better than expected. May Pending Home Sales confirmed a slight weakening developing in housing as interest rates rise and job growth remains below potential, though partly offset by incremental wage and income increases. Pending Home sales for May (homes in contract waiting to close) was -.8%, worse than expected. This week we also got our final look at Q1 GDP (we get three looks at each qtr; Preliminary, Advance, and Final) which showed quarterly growth of .35%, or on an annualized basis 1.4%; not good. The U.S. economy still has not experienced a 3% real growth rate since 2007; a record stretch. As usual on Thursday morning we got our best look at short-run labor market conditions with the Initial Jobless Claims data showing just 244K American's lost their job and had to file for unemployment insurance. We like this, though we suspect this number will be trending higher over the next 6-12 months. On Friday we got a peak into the health of the U.S. consumer/household with Personal Income and Personal Spending for the month of May. Both showed a positive print, though income was up higher than spending which meant

Americans boosted their savings rate substantially over the intervening period. This ties in nicely with weak Retail Sales, Durable Goods, and Factory Orders. Lastly, late Friday morning we got another soft data point, the Chicago Purchasing Managers Index which was much stronger than expected, and stronger than the prior month. This is the challenge for analysts; how to square the positive and strong soft data with the somewhat negative and weak hard data. PMUSA relies on the hard data which indicates the U.S. will continue in a low growth environment with a stronger bias to the downside.

## WEEK AHEAD

Markets are open for half a day on Monday, closed on Tuesday to celebrate America's independence from the British Empire. The 2<sup>nd</sup> week since the last FOMC meeting and we get more talking Fed heads to help markets interpret their intentions. It starts with TV favorite St. Louis Fed President Bullard, the dove of doves at the Fed, and he'll be saying he thinks the Fed's message on rate hikes is too aggressive. Thursday we get San Francisco Fed Pres Williams talking on global growth. His words will be parsed carefully for any hint on rates hikes or balance sheet normalization, and on Friday we get the Fed's Monetary Policy Report at 11am which is a primer to the following week's testimony in front of Congress by Fed Chair Janet Yellen.

On the data front the first week of every month is a big one led by the Employment Situation Report (ESR) released by the Dept. of Labor on the first Friday of every month. The ESR gives us Non-farm Payrolls, the Unemployment Rate, Avg. Hourly Earnings, and the Avg. Work Week. This is the mother of all data reports. Anything above 185K for June will be considered strong and add to debate on Fed hike timing. Anything below 150K will affirm the Fed on hold.

Prior to that, on Monday we will get the Institute for Supply Management (ISM) Manufacturing Index (soft data point), and if recent trends remain, we can expect a better than expected release. Also on Monday we get a look May Construction Spending, and for May at least there should be no weather excuses for a weak number. As always on Wed morning we get a peek at Mortgage Applications for the week ending 6/24, and we also get to a look at May Factory Orders (FO). Given the negative print for April, and the weak Durable Goods Orders, we can expect another negative print from FO's. On Thursday, pushed one day because of July 4<sup>th</sup>, we get the precursor to the Friday jobs data with the release of the ADP Employment Report. Provided by the private payroll company ADP, this

number helps set expectations for the Friday jobs data. Anything above 160 will be seen as positive for Friday (it excludes government jobs). If it is Thursday then it is Initial Unemployment Claims time and we can expect another calm number in the 245K-250K range. Also on Thursday we get the full release for May International Trade including services, and expect a print of -\$48B, and we get a look at another soft data point, the ISM Services Index. Then on Friday, the mother of all data points, Non-Farm Payrolls. The whole world anxiously awaits this number gauging the health of the labor market of the largest and most powerful economy in the world.

Debt ceiling talk will begin creeping into markets, as will the ongoing lunacy of the Russian investigation in DC, with paralysis overtaking both the GOP leadership in Congress and the actions and activities of the Trump White House. Hot spots around the world will continue on the radar for the week; domestic political violence in the U.S., Qatar, Russia/NATO, North Korea, and the UK. Of course, don't forget the ultimate disrupter, Trump Tweets; now a risk element.

That is it for data this coming week. Market players will be relying on headline news events and technical analysis for trading opportunities while battling with continued low volatility in all sectors. We can expect Q2 financial services firm's earnings to show meaningful drops in trading revenue as a result of this low volatility. It is the fault of the algo, the black box, the robot and laser lines-of-site to shave off milliseconds to beat the human. Is that bad? It is not good.