

INSIDE DEBT

THURSDAY, JULY 18, 2019

[Fed's Williams says better to act now than wait on rate cut](#)

TOP NEWS

Fed's Williams argues for vaccinating economy when rates are low

Policymakers need to add stimulus early to deal with too-low inflation when rates are near zero and cannot wait for economic disaster to unfold, the Federal Reserve policymaker said. New York Fed President John Williams said that one of the lessons from his research is that, when rates and inflation are low, policymakers cannot afford to keep their "powder dry" and wait for potential economic problems to materialize. "It's better to take preventative measures than to wait for disaster to unfold," Williams said. "When you only have so much stimulus at your disposal, it pays to act quickly to lower rates at the first sign of economic distress." He sounded particularly concerned about inflation, with the Fed's preferred measure of prices gaining 1.6% a year now.

U.S. labor market strong; mid-Atlantic manufacturing rebounds

The number of Americans filing applications for unemployment benefits increased moderately last week, pointing to still strong labor market conditions despite signs that economic activity was slowing. Other data showed factory activity in the mid-Atlantic region rebounded sharply in July. Initial claims for state unemployment benefits rose 8,000 to a seasonally adjusted 216,000 for the week ended July 13, the Labor Department said, remaining in the middle of their 193,000-230,000 range for this year. Last week's increase in claims was in line with economists' expectations. The Atlanta Fed is forecasting gross domestic product rising at a 1.6% annualized rate in the second quarter. The economy grew at a 3.1% pace in the January-March period.

U.S.-China trade talks continue, in-person meeting may be planned -Mnuchin

U.S. and Chinese officials will speak, potentially paving the way for in-person trade talks to resume, U.S. Treasury Secretary Steven Mnuchin said, as the world's two largest economies seek to end a year-long trade war. "Right now, we're having principal level calls and to the extent that it makes sense for us to set up in-person meetings, I would anticipate that we would be doing that," Mnuchin told Reuters. Asked if call could lead to an in-person meeting, Mnuchin said: "It's possible, but I'm not going to speculate on the outcome." Mnuchin denied a Wall Street Journal report last week that said the Treasury chief was urging U.S. suppliers to seek exemptions to sell to Huawei, saying he talks to corporate executives about many issues, including trade.

Charity shops, antiques behind surprise UK retail sales jump in June

British retail sales rebounded unexpectedly in June, driven by sales of antiques and second-hand clothes, raising hopes that a downturn in the second quarter could be softer than previously expected. The Office for National Statistics (ONS) said sales were up by 3.8% compared with June 2018, again stronger than all forecasts. The ONS linked the upturn to demand for second-hand goods from charity shops and auctions of antiques. Separately, a budget watchdog said Britain might be entering a full-blown recession that a no-deal exit from the European Union would compound, blowing a 30 billion-pound hole in the public finances. The Office for Budget Responsibility said the economy probably flat-lined or might have contracted in the second quarter.



BOJ's Kuroda says will mull data until last minute in deciding July policy

Bank of Japan Governor Haruhiko Kuroda said that the central bank will scrutinise economic developments until the last minute in deciding policy this month, suggesting that whether to stand pat or increase stimulus will be a close call. Kuroda said he felt the group now expect the timing of a pick-up in global growth to be delayed "somewhat" given looming downside risks. "Personally, I don't think we need to expect the pick-up in global growth to be delayed significantly, or that this will become a big problem ahead," he told a news conference. Separately, Ministry of Finance data showed Japan's exports fell yet again in June, while manufacturers' confidence crumbled to a three-year low this month as a Sino-U.S. tariff row, slowing China growth and rising trade protectionism heaped pressure on the world's third-biggest economy.

DEEP DIVE**GRAPHIC-Take it easy: central bank U-turns loosen financial conditions**

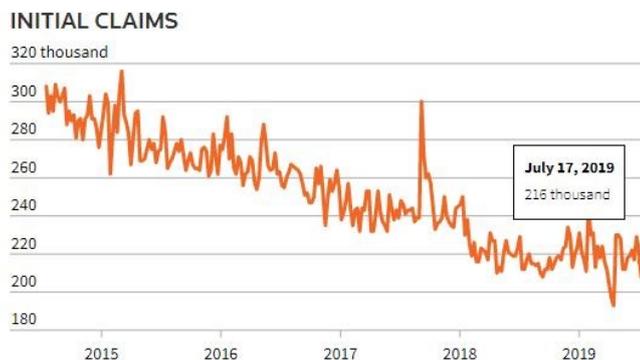
Rate cut bets and rallying equity and bond markets are feeding into a gradual loosening of financial market conditions that could potentially send world growth ticking higher by the end of the year, a closely watched index suggests.

POLL-ECB to cut rates in Sept, QE 2.0 still on the cards

The European Central Bank will cut its deposit rate in September after signalling a bias to do so this month, according to economists in a Reuters poll who do not expect a turnaround in the euro zone's economic fortunes any time soon.

POLL-BOJ's next move to be more easing, say majority of economists

Expectations have risen sharply that the Bank of Japan's next policy move will be to ease further, a Reuters poll of economists found, as the U.S. Federal Reserve looks set to cut interest rates this month for the first time in over a decade.

CHART OF THE DAY**Weekly U.S. jobless claims**

Source: Thomson Reuters Datastream
By Jiachuan Wu and Stephen Culp | REUTERS GRAPHICS

MARKETS TODAY

TREASURIES: Treasury yields declined after a Federal Reserve official said policymakers need to add stimulus early to address too-low inflation when interest rates are near zero and said they cannot wait for economic disaster to unfold. The Treasury Department sold \$14 billion worth of 10-year TIPS notes at a high yield of 0.282%, which was the lowest yield for this type of government debt at an auction since September 2016. The bid-to-cover ratio was 2.28, which was the lowest reading in a year. 2-year notes were up 5/32 with a yield of 1.76%. 5-year notes rose 9/32, yielding 1.77%. 30-year bonds added 4/32, yielding 2.57%.

FOREX: The dollar extended its losses against the euro, yen and other major currencies as remarks from New York Federal Reserve President John Williams increased bets the central bank would lower interest rates at month-end. The euro was up 0.46% at \$1.1275. Sterling gained 0.99% at \$1.2554. Against the yen, the dollar was down 0.62% at 107.27 yen. The dollar index was down 0.55% at 96.690.

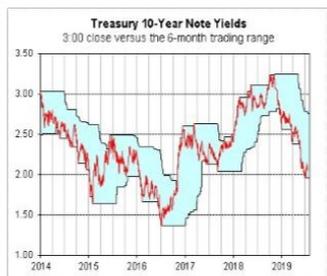
CORPORATES: Corporate bond spreads tightened as weekly jobless claims showed the country's labor market remained strong. The CDX-IG.32 index tightened by 1 bps to 53 bps.

STOCKS: Stocks moved higher after a slow start as comments from New York Fed President John Williams further cemented expectations for interest rate cuts from the U.S. central bank at the end of the month. Philip Morris rose 8.11%. Union Pacific Corp added 5.82%. Microsoft was up 0.11%. Netflix plunged 10.27%. The Dow rose 2.58 points, or 0.01%, to 27,222.43, the S&P 500 gained 10.64 points, or 0.36%, to 2,995.06 and the Nasdaq added 22.04 points, or 0.27%, to 8,207.24.

C&E: Oil fell, weighed down by weakness in U.S. equities markets and an expectation that crude output would rise in the Gulf of Mexico following last week's hurricane in the region. U.S. crude fell 1.90% to \$55.70 a barrel. Brent dropped 1.79% to \$62.52 per barrel. Gold gained 1.37% at \$1446.20 per ounce.

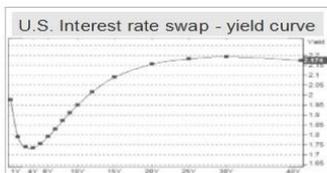
NEX DATA

TREASURIES (as of 3:20 pm EST)				
	BID	ASK	YIELD	CHANGE
1-Mo Bill	2.050	2.045	2.081	-0.075
2-Mo Bill	2.030	2.02	2.064	-0.093
3-Mo Bill	2.015	1.99	2.053	-0.105
6-Mo Bill	1.960	1.950	2.007	-0.075
1-Year	1.845	1.840	1.897	-0.085
2-Year	99.711	99.750	1.776	0.090
3-Year	100.008	100.047	1.747	0.117
5-Year	99.820	99.867	1.788	0.148
7-Year	99.828	99.875	1.901	0.156
10-Year	102.992	103.055	2.037	0.117
30-Year	106.430	106.492	2.565	-0.148



ICAP DATA

IR SWAPS (as of 3:20 pm EST)				
	SPREAD		RATE	
2-Year	1.25	5.25	1.78	1.79
3-Year	-1.50	2.50	1.73	1.74
5-Year	-3.50	0.50	1.75	1.76
7-Year	-7.75	-3.75	1.82	1.83
10-Year	-9.25	-5.25	1.94	1.95
30-Year	-37.75	-33.75	2.19	2.19



LATAM NEWS

Latam's 2020 growth may turn negative due to U.S.-China trade war -IADB

Latin American and Caribbean economies could shrink in 2020 on average if U.S.-China trade tensions are not resolved, because the world's two largest economies are major trading partners for the region, a senior economist said on Wednesday. Regional growth in 2019 is expected at 1.1%, versus an estimate in March of 1.4%, Eric Parrado, chief economist at the Washington-based Inter-American Development Bank (IADB), told reporters. This is due to lower-than-expected first-quarter growth in the region's three largest economies: Brazil, Mexico and Argentina. While the IADB is maintaining its 2.3% regional growth forecast for 2020, Parrado said U.S.-China trade tensions posed significant risks. Parrado acknowledged that the growing exodus of migrants from Venezuela, totaling some 4 million since 2015, could have a short-term impact on growth in neighboring countries.

Brazil hoping to avoid budget freeze next week, but options limited

Brazil's government is hoping to avoid announcing a fresh round of budget freezes next week, the President's chief of staff said, adding that economic stimulus measures are also expected to be announced next week. With weak economic growth squeezing federal revenues, the Economy Ministry may have to announce further spending freezes or cuts in

order to make sure it keeps its fiscal rules. But President Jair Bolsonaro's chief of staff Onyx Lorenzoni told reporters in Brasilia that the details are still being thrashed out, and that officials are working on the assumption that this can be avoided. Lorenzoni said that the government will next week announce details on the release of funds from the 'FGTS' workers' guarantee funds.

ANALYSIS-Position shifts point to pause in Brazil market rally

Having surged ahead of anticipated congressional passage of a pension reform in recent months, Brazilian financial markets find themselves at a crossroad.

LATAM MARKETS

EQUITY	Close	Pct Change
MSCI Latin American Index	2947.36	0.75
Brazil's Bovespa Index	104618	0.73
Mexico's IPC Index	41709.91	-1.98

CURRENCIES	Last	Pct Change
Brazilian Real	3.7277	-0.94
Mexican Peso	18.9587	-0.54
Chile Peso	682.09	0.01
Colombian Peso	3172.29	-0.26
Peru Sol	3.2756	-0.26

EYE ON ASIA

South Korea, Indonesia cut key rates, more Asian policy easing seen

South Korea and Indonesia cut their benchmark interest rates for the first time in years, not waiting for an expected reduction soon in U.S. rates as they aim to help borrowers cope with mounting risks to economic growth. The Korean cut, unlike the Indonesian one, surprised economists who anticipated a move by Seoul only after a Federal Reserve's policy decision due on July 31. And both left the door open for further easing. The Bank of Korea (BOK) cut its base rate 25 basis points to 1.50%. Indonesia's central bank (BI) cut its benchmark interest rate, lowering the 7-day reverse repo rate by 25 bps to 5.75%. The governors of BOK and BI both said that they see more room for "accommodative" policy.

Australia jobless rate stuck at 5.2%, signals more work for RBA

Australian full-time employment surged in June, but the jobless rate stayed stuck at 5.2% for a third straight month as more people looked for work, a sign of spare capacity that argues for more policy stimulus. Figures from the Australian Bureau of Statistics showed 500 new jobs were added last month as a slump in part-time work overshadowed the 21,100 jump in full-time employment. Economists expect another cut later this year, probably by November while some are predicting policy at 0.5% in 2020 as the RBA steps up efforts to revive growth.

ASIA ECON WATCH (For July 19)

Japan CPI, Core Nationwide (Y/Y) for June: Expected 0.6%; Prior 0.8%



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