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Weekly commentary

Let the Games Begin

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Key takeaways

- Shock, Surprise, Suspense – Headlines drive markets and this week was no exception.
- "U.K. Rate Slashed to Lowest in 322-year History" (Wall Street Journal). The Bank of England's (BOE) Mark Carney shocked markets with a preemptive blunt force response to the June's Brexit referendum.
- "U.S. Payrolls Surge…" (Bloomberg News). This week's labor report removed any concern that the economy was at risk of recession.
- "How Slow is U.S. Economic Growth?" (CNBC). The initial estimate of second quarter U.S. gross domestic product (GDP) indicated that the pace of growth remained slow for the third consecutive quarter.
- "Consumer Spending Rises" (Reuters). Unsurprisingly, the consumer remained the bright light in the GDP report.

Full commentary

Shock, Surprise, Suspense – Headlines drive markets and this week was no exception. The first week of August vacation was interrupted by the announcement of significant U.K. monetary stimulus measures, a strong U.S. labor market report and grumblings ahead of the upcoming Olympics in Brazil. Two of the three headlines are likely to influence sentiment in these waning weeks of summer.

"U.K. Rate Slashed to Lowest in 322-year History" (Wall Street Journal). The Bank of England's (BOE) Mark Carney shocked markets with a preemptive blunt force response to June's Brexit referendum. Those expecting only modest stimulus measures were blown away by the unexpectedly large and diverse package, which combined interest rate cuts, balance sheet purchases and low-interest bank lending. With the outlook weakening, the U.K. central bank appears less concerned about the inflationary impact of a weaker currency and more concerned that a pronounced decline in business and consumer confidence would lead to an economic slowdown. While Mark Carney indicated that the BOE was capable of doing more and would consider follow-up measures, he is "not a fan" of a negative interest rate policy and is unlikely to follow other central banks down that path.

"U.S. Payrolls Surge…" (Bloomberg News). This week's labor report removed any concern that the economy was at risk of recession. The payroll survey reported 255,000 job gains, exceeding economists' expectations by a significant margin while the unemployment rate held steady at 4.9%. Evidence of nascent wage pressures appeared with average hourly earnings exceeding economists' expectations. Job gains were broad based impacting multiple sectors of the economy. The July labor report was closely followed by market participants searching for clues following the second quarter's disappointing GDP report.

"How Slow is U.S. Economic Growth?" (CNBC). The initial estimate of second quarter U.S. GDP indicated that the pace of growth remained slow for the third consecutive quarter. The data caught markets by surprise, as many were expecting a rebound from a weak first quarter. Delving into the details, it is clear that private investment continued to lag as we entered the eighth year of the economic recovery. Paradoxically, investment has remained lackluster despite historically low capital costs. While this story is not new, there appears to be some evidence that the expansion is beginning to exhibit late-cycle characteristics. Last week's senior loan officer survey showed that U.S. lending standards have tightened for the fourth consecutive quarter. This series has historically been closely correlated with shifting economic cycles and may portend a flatter trajectory of growth going forward.

"Consumer Spending Rises" (Reuters). Unsurprisingly, the consumer remained the bright light in the GDP report. Consumer spending, which has been the driving force of growth this year, advanced at a striking 4.2% annual pace in the second quarter, offsetting weakness in business spending. The strong finish in June left markets more optimistic that the trend will continue into the third quarter. The robust pace, however, may be unsustainable as the rate of consumer spending has exceeded income growth for much of the year. Early evidence of a potential pullback may be appearing in automobile sales which slowed considerably since earlier in the year. A modest deceleration in consumption, to a more sustainable pace, should continue to support growth in the medium term.

This week's market developments

Monday , August 1

- US ISM Manufacturing decreased to 52.6 for July
- US ISM Prices Paid decreased to 55.0 for July

Tuesday, August 2

- US Personal Income growth remained at 0.2% m.o.m. (s.a.) for June
- US Personal Spending growth remained at 0.4% m.o.m. (s.a.) for June

Wednesday, August 3

- Eurozone Retail Sales growth decreased to 0.0% m.o.m. (s.a.) for June
- US ADP Employment Change increased to 179,000 for July

Thursday, August 4

- US Factory Orders growth decreased to -1.5% m.o.m. (s.a.) for June

Friday, August 5

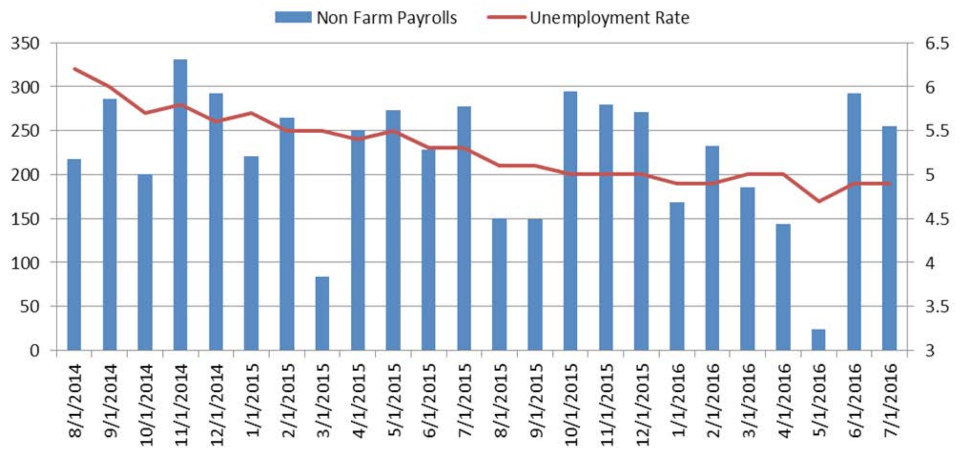
- Germany Factory Orders growth decreased to -0.4% m.o.m. (s.a.) for June
- US Change in Nonfarm Payrolls decreased to 255,000 m.o.m. (s.a.) for July
- US Unemployment Rate remained at 4.9% for July

Source: Bloomberg, as of end August 8, 2016

As the global forces that roiled markets in the last year fade from media attention, markets appear more attentive to the evolution of fundamental economic data and the resultant implications for monetary/fiscal policy in advanced economies. Data from remaining weeks of summer, however, are unlikely to elicit any material changes in policy in the near term. The U.S. Federal Open Market Committee (FOMC) is on summer break until September 21, with ample time to digest eight weeks of economic data. The Bank of Japan (BOJ) postponed any changes to monetary policy until a comprehensive review is completed, coincidentally also on the 21st of September. Meanwhile, the European Central Bank (ECB) is unlikely to make any adjustments until later in the calendar year. Perhaps it's time to shift our attention to Rio. This just in... "Everything is Going Wrong in Brazil Ahead of the Olympics" (Huffington Post)!

Chart of the week

U.S. Labor Market Statistics



Source: Bloomberg,

Central Bank watch

	Last move	Date of move	Current policy rate	Implied 3m rate on September 2016 Interest Rates Futures Contract	Next meeting
Fed	+25 basis points	December 16, 2015	0.25 % - 0.50 %	0.41 %	September 21, 2016
ECB	-5 basis points	March 10, 2016	0.00 %	-0.17 %	September 8, 2016
BoJ	-20 basis points	February 16, 2016	-0.10 % - 0.00%	0.06 %	September 21, 2016
BoE	-25 basis points	August 4, 2016	0.25 %	0.32 %	September 15, 2016

Source: Bloomberg

Next week's market developments

Monday, August 8

- German Industrial Production is expected to increase to 0.7% m.o.m. (s.a.) for June

Tuesday, August 9

- •UK Industrial Production is expected to increase to 0.1% m.o.m. (s.a.) for June
- UK Manufacturing Production is expected to increase to -0.2% m.o.m. (s.a.) for June
- US NFIB Small Business Optimism Index is expected to remain at 94.5 for July
- US Wholesale Inventories is expected to decrease to 0.00% m.o.m. for June

Wednesday, August 10

- France Manufacturing Production is expected to increase to 0.2% m.o.m. (s.a.) for August 6

Thursday, August 11

- US Initial Jobless Claims is expected to decrease to 265,000 (s.a.) for June

Friday, August 12

- Germany CPI is expected to remain at 0.3% m.o.m. (s.a.) for July
- Eurozone GDP is expected to remain at 0.3% q.o.q. (s.a.) for Q2
- US Retail Sales Advance Index is expected to decrease to 0.4% (s.a.) for July
- US PPI Final Demand Index is expected to decrease to 0.1% m.o.m. (s.a.) for July

Source: Bloomberg, as of end August 8, 2016