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The Morning Briefing

North American Edition
Wednesday, May 9, 2012
6:30 am (EDT), 11:30 am (BST)
Allen Sinai, Chief Global Economist

GLOBE AT A GLANCE – Andrew Wroblewski, London / Pierre Ellis, New York

Equities: All lower. Japanese equity markets closed lower. Other major Asian markets were all lower too. European bourses opened higher and seesawed through early morning trade, but then fell through the remainder of the morning, dragged down by worries about Spain's banking sector and Greece's political future.

Bonds: Europe mixed, Japan higher. JGB prices rose across all maturities, with the yield curve steepening on the medium to long-term end. European bond prices saw continued divergences, however, with Bunds higher, but peripheral markets all lower, led by a clear fall for Spain.

Currencies: Stronger yen. The dollar fell on net against the yen through both the Asian and morning European sessions, trading lower to around ¥/$ 79.66. Against the euro, the US currency seesawed through Asian hours but then rose marginally in the morning European session, moving higher on net to near $/€ 1.298.

Germany: Exports rise further. Exceeding expectations once again, the March (unadjusted) trade surplus still narrowed to € 17.4 bln from € 18.8 bln in the same month of last year.

United Kingdom: Sales undermined by weather? According to the British Retail Consortium, like-for-like nominal store sales growth dropped afresh in April.

Poland: Rates hiked. Surprising most, the National Bank of Poland decided at its latest meeting to increase its key interest rates by 25 bp to 4.75%.

South Korea: Household lending growth slows further. April data showed household lending growth slowing to 3.9% Y/Y.

U.S. ECONOMIC AND CREDIT MARKET OUTLOOK – Pierre Ellis, New York

Treasuries advanced further at the long end, with the ten-year yield down three basis points while the two-year yield held steady. Prices rose strongly in London activity, opening New York at nearly the levels where they would eventually close. The market moved up a bit further in early activity, peaking just before noon, but drifted back down over the afternoon. Ongoing Europe worries, driven by the likelihood of months-long Greek-government instability, were the main theme—reflected in very depressed stock prices for most of the day.

DAILY CALENDAR

Among scheduled items today, the speech by Cleveland Fed President **Pianalto** may have the most potential to interest markets—she is voting on the FOMC this year, and with Atlanta Fed President Lockhart, makes up a middle-of-the road bloc that probably needs to acquiesce to any easing decision driven by the Committee's six doves, in order for it to have the appearance of consensus.

Incoming data that convinced Pianalto or Lockhart that the economy was likely to seriously underperform recent FOMC expectations, or that inflation threatened to slow persistently, would surely have already tipped dovish opinion in the direction of new Fed action—and the overt concurrence of the middle of the roaders with that view would be a signal that a move was on the way.

Of course, any shift in Pianalto's views about the outlook would probably develop only gradually—and there might not be any hint of such a thing in the speech today. But, enough questions are being asked about recent data that her words should be read closely.

There will also be some technical interest in the **wholesale inventories** figure as an input to the coming revision to first-quarter GDP. Manufacturing-sector data last week hinted at the beginnings of a downward revision to the GDP inventory component—something that would, all else constant, slow growth, but also make it less unhealthy. Wholesale-sector numbers could offset the downside manufacturing surprise, or work to reinforce it—affecting the chances of a revision.

Wholesale inventory forecasts (Consensus and Decision Economics: +0.6%) essentially match the assumption built into the standing GDP numbers, so an in-line result would be neutral with respect to the hint on revision given by the manufacturing numbers. A bigger than-expected rise today would work against any downward GDP-inventory revision, while a weaker-than-expected result would tend to make it more significant.

Kocherlakota and **Plosser**, neither of whom are currently voting on the FOMC, both represent the hawkish wing of the Committee. While surely consulted seriously in deliberations, they probably do not have any new arguments against easing to outweigh concerns that recent data may be provoking.

The Schedule Today: March wholesale inventories and a speech by Minneapolis Fed President Kocherlakota, both at 10:00 EDT/14:00 GMT, a speech by Cleveland Fed President Pianalto, at 10:45 EDT/14:45 GMT, and one Philadelphia Fed President Plosser, at 12:00 EDT/16:00 GMT.

DE Forecasts:

Wholesale Inventories: +0.6%

CANADA – Melissa Pumphrey, New York

(Tuesday) Canadian housing starts outpace expectations. Housing starts overshot forecasts on a +244.9K figure for April (Consensus: +204.0K; Decision Economics: +205.0K) on the strength of urban multi-family units. This is the fastest pace since September 2007. Housing starts have now gained 14% m/m and 28.8% y/y.

Single-family urban housing starts grew a modest 0.6% m/m (+3% y/y) to 67.7K, while multi-family urban housing starts increased by a whopping 27.4% m/m (+47.6% y/y) to 158.5K. Urban gains were strongest in Quebec (+56.5% m/m), but were also robust in Ontario (+12.2% m/m) and British Columbia (+6.3% m/m). Rural starts declined by 19% m/m (+9.4% y/y) to 18.7K.

This fresh data indicates that starts are continuing to escalate in the exact markets that seem to already be overheated. While Finance Minister Jim Flaherty and the BoC are reluctant to step in and instead want the housing market to slowly cool itself, the current pace of urban condominium starts suggests that markets are ignoring policymakers.

WESTERN EUROPE – Andrew Wroblewski, London

EUROZONE

GERMANY – Exports rise further. Exceeding expectations once again, the March (unadjusted) trade surplus still narrowed to € 17.4 bln from € 18.8 bln in the same month of last year, it nevertheless being up from the € 14.9 bln February reading. In seasonally adjusted terms, however, the trade surplus was unchanged at € 13.7 bln in March, as a third successive rise in exports (up 0.9% M/M) was accompanied by a 1.2% increase in imports.

The (unadjusted) current account surplus, meanwhile, was € 19.8 bln in March, down from € 21.3 bln in the same month last year, still leaving this year's cumulative surplus 1.0% up from that in the same period of 2011.

FRANCE – Exports correct back. The March trade gap narrowed clearly and by more than expected, easing back to a gap of € 5.72 bln from a shortfall of € 6.28 bln in February. The smaller deficit came in spite of a correction back (-1.5% M/M) in exports, instead reflecting an even larger drop in imports (of 2.6%), the latter mainly energy related.

OTHER WESTERN EUROPE

UNITED KINGDOM – Sales undermined by weather? According to the British Retail Consortium (BRC), like-for-like nominal store sales growth dropped afresh in April, albeit with the growth rate swinging to -3.3% Y/Y from 1.3%, the latter having been a three-month high. Overall (or total) sales growth also fell, swinging similarly but to -1.0%.

As the BRC itself stresses, a three-month average better reflects underlying trends given the gamut of distortions that have dogged recent data, these now including the likely damage to sales last month from the unusually wet weather as well as unfavorable base effects (ie the timing of Easter and the fact that April last year had the royal wedding). These continue show that sales have been largely flat of late. Even so, it is also worth noting that as the BRC sales data are in nominal terms, they imply that real sales have continued to fall clearly.

Softer labor market signals? The latest (April) REC labor-market report continued to suggest an on-going improvement in the jobs market but at a slower pace. Indeed, the survey showed the permanent placements index slipping back slightly further, albeit with the decrease of 0.5 point (to 51.9) still taking it down only from a February reading which was the highest since May last year. Admittedly, the temporary placement index slipped a little further last month and to a fresh cycle-low of 48.2. Even so, the survey showed some slightly more positive signals regarding vacancies, while wage pressures slipped afresh.

CENTRAL EUROPE, RUSSIA AND TURKEY – Chang Liu, London

HUNGARY – Export growth falls. Trade data for March showed exports rising by 3.5% Y/Y, down from the 6.3% gain in the previous month. Import growth, meanwhile, slowed to 6.7% Y/Y from 9.5% in February. As a result, the March trade surplus narrowed to HUF 178.3 bln from HUF 226.4 bln in the same month of 2011.

JAPAN – Andrew Wroblewski, London

Leading index rises further. The preliminary leading index for March, as computed by the Cabinet Office, rose for the third successive month, rising 0.6 point to 96.6. Meanwhile, the coincident index bounced by 1.3 points (to 96.5), thereby establishing a somewhat firmer tone of late. These persuaded the Cabinet Office to maintain its assessment of an economy, still saying the economy is improving.

ASIA – Chang Liu, London

SOUTH KOREA – Household lending growth slows further. April data showed household lending growth slowing to 3.9% Y/Y from 4.2% in the previous month, now a 20-month low. Mortgage lending growth, meanwhile, moderated to 5.6% Y/Y last month following a 6.1% gain in March, now the weakest gain since June 2008. Elsewhere, growth in lending to companies fell by 0.6 percentage point to 7.2% Y/Y in March, now a five-month low. This reflected slower growth in both large firm and SME lending.

Elsewhere, money supply data showed growth in the broadest measure (LF, formerly M3) rising clearly by 1.6 percentage points to 8.8% Y/Y in March, now a fresh cycle-high. Meanwhile, M2 growth picked up to 5.7% from 5.3% in the previous month while M1 growth nearly doubled to 2.1% from 1.1% in February.

MALAYSIA – Modest fall in exports. Confounding expectations of a further increase, exports actually fell slightly by 0.1% Y/Y in March, swinging into contraction territory following the 14.5% jump in February which was third-largest gain in the cycle. Import growth, meanwhile, slowed to 1.6% from 18.0% in February, now a fresh cycle-low. As a result, the trade surplus narrowed slightly to 10.45 bln ringgit from a gap of 11.34 bln ringgit in the same month of 2011.