

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

**Equities: Asia Higher, Europe Little Changed.** Asian markets took their cur from the US gains on Friday, enjoying clear and broad gains. European markets took something of a breather, albeit edging up in the morning session despite initial modest mark-downs.

**Bonds: Largely Better.** JGBs were mixed, while European bonds rose clearly and in unison.

**Currencies: Mixed.** The yen rallied a little against the dollar in the European session towards the ¥/\$ 78.30 mark. However, the euro slipped back to just above the \$/€ 1.2350 mark.

**Indonesia: Growth Edges Back Up.** Coming in better than expected, national accounts data showed GDP growth actually picking up afresh, as the headline rate rose to 6.37% Y/Y in Q2 from 6.32% in the previous quarter.

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

**Treasuries dropped Friday, with the two-year yield rising a basis point, to 0.24%, and the ten-year yield up eight, to 1.56%.** The decline started in London, with the New York open at a level about a third of the way to the ultimate close, and carried on, more steeply, but briefly, after the release of a stronger than expected U.S. July payroll employment number.

Yet more ground was lost in late morning, and the closing level was barely up from noontime lows. The early decline was attributed to a favorable equity-market re-evaluation of ECB President Draghi's press conference remarks, and U.S. equity strength, keying off both Draghi and the employment result, was part of the later downward pressure on bonds. Looming quarterly refunding supply was another negative.

July **payroll employment** rose a more-than-expected 163,000 (Consensus: +100,000; Decision Economics: +92,000), but that was the only notable strength in the entire employment report. The **average workweek** was steady, as expected, and **average hourly earnings** rose a less than-expected 0.1% (Consensus: +0.2%; Decision Economics: +0.3%).

Meanwhile, the **unemployment rate** increased unexpectedly, rising 0.1% to 8.3% (Consensus and Decision Economics: unch), because household-survey employment dropped by 195,000. Only the fact that the labor force shrank by 150,000 prevented the unemployment rate from rising even more.

The combination of the payroll employment, workweek, and average hourly earnings numbers points to a significant slowdown in output and income growth from June, despite the acceleration in employment growth (from 64,000) since then. Still, the fact that employment strengthened hints that business managers have a reasonable degree of confidence in the outlook.

The output indication was from the index of aggregate hours—which reflects the combination of total employment and the average number of hours worked by employees. That index—representing total employee-hours worked in the month—rose only 0.1% in July, after gaining 0.4% in June. Still the June level of the index was up 1.3% annualized from the second-quarter average—probably enough to support some third-quarter pickup in GDP growth, if nothing else goes wrong.

Problem is, the very modest July rise in average hourly earnings limits the monthly growth in labor income to something like a third of what was seen in June.

The pickup in payroll employment, and the tentative indication of reviving business confidence, is favorable news from the Fed perspective, but of less concrete significance than the fact that income growth seems to be much slower than it was last month—and that output growth, a signal on what sales are doing, likely slowed even more. There is no new support for any developing momentum in consumer spending—and most July output-side numbers are destined to be very mild.

Without greater assurance that the economy is picking up in a sustained way, Fed will certainly continue to “closely monitor incoming information on economic and financial developments,” and all policy options remain on the table.

**DAILY CALENDAR**

While Chairman **Bernanke's** talk will surely get undivided market attention, the circumstances under which it will be delivered are very confining. He will make brief (less than fifteen minutes) prerecorded opening comments at an NBER conference on "Measuring Economic Stability and Progress."

The meeting is organized under the auspices of the Conference on Research in Income and Wealth, a decades-old organization devoted to the improvement and better use of income and wealth data—including the national income accounts, the flow of funds accounts, the Survey of Consumer Finances, and many data sets used within them, or in their design.

Bernanke's remarks are titled, in the typically informative Fed manner, "Economic Measurement." Probably there will be nothing of much market interest in them—but, there is an outside chance that the Chairman will cite some currently topical data series, giving insight into what the FOMC thinks of it, or sees in it. In a very confusing environment, even that bit of clarification may be significantly enlightening.

**The Schedule:**

An appearance by Chairman Bernanke, at 9:00 EDT/13:00 GMT.

**WESTERN EUROPE – Andrew Wroblewski, London**

**UNITED KINGDOM – House Prices Correct Back.** There was a fresh fall in the latest house price data from HBOS. These showed house prices sliding 0.6% M/M in July, unwinding much of the revised 0.8% rise seen in the previous month, albeit with this drop only being the first in three months. In Y/Y terms, however, house price inflation little changed at -0.6%.

*HBOS continue to note little underlying change in prices. Notably, the ratio of house prices remained clearly above the long-term average.*

**CENTRAL EUROPE, RUSSIA AND TURKEY – Andrew Wroblewski, London**

**CZECH REPUBLIC – Output Falls Further.** Data for June showed industrial production falling by 2.2% Y/Y, similar to the 2.4% drop posted in the previous month. The latest outcome reflected a swing back to the positive in utilities (2.6% from -2.9%) while manufacturing fell more a little more steeply (-2.7% from -2.5%).

**Trade Surplus Widens.** Visible trade data for June showed seasonally adjusted exports bouncing 0.7% M/M from the 0.6% drop seen in the previous month, actually the first rise in five months. Imports, meanwhile, dropped 0.6% M/M in June, a second successive fall. As a result, the trade surplus widened slightly to CZK 24.24 bln in June from CZK 21.18 bln in the previous month.

**JAPAN – Andrew Wroblewski, London**

**Leading Index Falls Sharply.** The preliminary leading index for June, as computed by the Cabinet Office, slumped 2.6 points (to 92.6), easily the largest of what is now a run of three successive falls. Moreover, the coincident index fell 2.0 points (to 93.8), accentuating the slides seen in the two previous months. As a result, the Cabinet Office downgraded its assessment of the economy, now saying the economy is marking time rather than improving.

**ASIA – Andrew Wroblewski, London**

**INDONESIA – Growth Edges Back Up.** Coming in better than expected, national accounts data showed GDP growth actually picking up afresh, as the headline rate rose to 6.37% Y/Y in Q2 from 6.32% in the previous quarter, the latter having been a six-quarter low. In Q/Q terms, GDP rose by an unadjusted 2.8%.

**TAIWAN – Consumer Price Inflation Picks Up More Clearly.** Overshooting expectations very clearly this time around, CPI inflation rose to 2.46% Y/Y in July, up markedly on the 1.77% reading in the previous month and now the highest in four years. On a M/M basis, prices rose by 0.38%. The Y/Y breakdown revealed the latest result to be a reflection of even steeper increases in price pressures for food (6.25% from 4.40%).

Elsewhere, and in contrast, wholesale price inflation actually remained negative at -1.00%, while import price inflation fell by 2.69% last month.